THE FREEMAN

IDEAS ON LIBERTY

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Antitrust Regulation: Back to the Past

Are There Too Many Lawyers?

Defending Freedom and the Free Society

JANUARY 1993

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RELIGION AND CAPITALISM: ALLIES, NOT ENEMIES

SPECIAL REPRINT EDITION

by Edmund A. Opitz

with a new foreword by Robert A. Sirico

In the late 1960s Arlington House Publishers commissioned Edmund A. Opitz of the FEE staff to write a book-length exploration of the relationship of biblical religion to free market economics. The resulting volume, *Religion and Capitalism: Allies, Not Enemies*, was published in 1970 as a Conservative Book Club selection.

Typical of the response to the book's publication was M. Stanton Evans' comment in *National Review:* "Opitz' volume is a major refutation of the Christian-Socialist, social-gospel view that has become so dominant in Western religious thought....[T]he Opitz book, with its unusual combination of economic knowledge and vigorous theism, is a major breakthrough in the scholarship of freedom."

Edmund Opitz, an ordained Congregational minister, is the founder and coordinator of The Remnant, a fellowship of conservative and libertarian ministers, a founder and secretary of The Nockian Society, and a contributing editor of *The Freeman*. He served as a member of the staff of FEE from 1955 until his retirement in 1992.

In reprinting *Religion and Capitalism*, FEE honors the notable accomplishments of Edmund Opitz, and preserves an intellectual legacy for a future generation of Christian scholars.

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PERSPECTIVE

The Most Unfair Taxes

In 1797, the U.S. Tariff Code consisted of a single sheet of paper. Today, there are more than 8,757 tariffs—plus lots of quotas, so-called voluntary import restraints and other import restrictions. These trade barriers cost consumers $80 billion per year—about $800 for every American family.

—GENE GROSSMAN AND ALAN KRUEGER,
National Bureau of Economic Research

Money Is No Object

How many times have you been in a discussion over an emotional political issue and the statement is made, "How can you even consider the cost when lives are at stake"? This question usually is raised in disagreement over government social welfare programs, health care issues, or national defense.

If we analyze the question we will see that the person asking already has placed a monetary value on the issue. What he is saying is, "I do not wish to spend any more of my resources on the problem but money is no object if someone else can be forced to pay the bill."

—RICHARD L. SHETLER

Finding a Job

Ronald Reagan, in speaking to a college graduating class in 1984, said the following:

"I'm no longer young—you might have suspected that. The house we hope to build is one that is not for my generation but for yours. It is your future that matters. And I hope that when you're my age you will be able to say, as I have been able to say, 'We lived in Freedom. We lived lives that were a statement, not an apology.'"

When more Americans, both citizens and politicians, think, speak, and act like this, we will once again return to the American society that existed in the last century, where each person came to this country with nothing but their two strong hands, a mind

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to use, and the heart to work and create, and *were given the full freedom to do so*. Until that time, no "jobs bill" presented by any politician will succeed in improving the lives of any of our citizens.

—ROBERT ZIMMERMAN

No Right to Security

Anyone who says that economic security is a human right, has been too much babied. While he babbles, other men are risking and losing their lives to protect him. They are fighting the sea, fighting the land, fighting diseases and insects and weather and space and time, for him, while he chatters that all men have a right to security and that some pagan god—Society, The State, The Government, The Commune—must give it to them. Let the fighting men stop fighting this inhuman earth for one hour, and he will learn how much security there is.

Let him get out on the front lines. Let him bring one slow freight through a snowstorm in the Rockies; let him drive one rivet to hold his apartment roof over his head. Let him keep his own electric light burning through one quiet, cosy winter evening when mist is freezing to the wires. Let him make, from seed to table, just one slice of bread, and we will hear no more from him about the human right to security.

No man's security is any greater than his own self-reliance. If every man and woman worth living did not stand up to the job of living, did not take risk and danger and exhaustion beyond exhaustion and go on fighting for one thin hope of victory in the certainty of death, there would not be a human being alive today.

—ROSE WILDER LANE
The Discovery of Freedom

Now We Know

How many Rocky Flats workers does it take to change a light bulb?

Forty-three—and that's no joke.

An internal memorandum written by managers of the Jefferson County nuclear weapons plant describes a 33-step process to perform a simple job on a vital safety system, the replacement of a light bulb in a criticality beacon.

A criticality beacon is a red light, similar to the revolving lamp atop a police car, that warns workers of spontaneous nuclear accidents.

The memo said that it takes at least 43 people 1,087.1 hours to replace the light under a new management system enacted by EB&G, Inc., the private firm operating Rocky Flats for the U.S. Department of Energy.

The same job used to take 12 workers 4.15 hours to accomplish, the memo said.

The dramatic increase in time and labor was needed to bring the plant up to safety standards, the managers said. . . .

The new procedure has 33 steps. It calls for a lead planner to meet with six other people at a work control meeting; talk with other workers who have done the job before, meet again; get signatures from five people at the work control meeting; get the project plans approved by separate officials overseeing safety, logistics, environmental maintenance, operations, waste management and plant scheduling, wait for a monthly criticality beacon test; direct electricians to replace the bulb; and then test and verify the repair.

Many of the steps are written in language only a bureaucrat could love.

For example, Step 13: "SES reviews the Work Package and fills out the SES form. The Planner is notified to pick up the package when the SES is complete. The package is in SES for approximately one week. Since this time is concerned with Time Logistics and PES are working on the BOM, no total time is given. The man hours is an estimate of the actual time SES is working on the package.

The step took 16 hours, the memo said.

And it would take 20 more steps—and 854.1 more hours—before the light bulb finally could be changed.

— MARK OBMASCIK
Denver Post

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THE FREEMAN
IDEAS ON LIBERTY

DEFENDING FREEDOM AND THE FREE SOCIETY

by Edmund A. Opitz

Countless generations of men have lived in unfree societies, but many men dreamed of freedom and hoped for the day when their children would be free. Gradually the West developed a philosophy of freedom, a rationale for individual immunity against governmental power. This intellectual movement gathered strength in the eighteenth and nineteenth centuries; Liberalism, as it was called, became the major social force in country after country. As the twentieth century dawned it appeared that the ideals of the free society were safely installed in the thinking of the West and progressively realized in practice in the major countries. But then something happened. In country after country, the highway of Liberalism turned into the road to serfdom. We made an about face in this country, but those who led off in a new direction didn't even bother to change the labels. They still call themselves Liberals, but the program of Liberalism in 1993 is radically opposed to the ideals of a free society. It is merely a pragmatized version of old-line socialism.

We sense that all is not well with our society, nor with our world. Our traditional rights and liberties, once taken for granted, are in jeopardy; they are undermined by dubious theories, and often overridden in practice. Under constant attack are such things as individual liberty, limited government, the private property concept, and the free market way of doing business. Taken together these items are the essential elements of the free society.

This essay is an effort to get to the roots of the present situation, to determine, if possible, some of the causes; and to suggest, in the light of this analysis, the nature of the remedy. The dislocations which meet the eye most immediately appear on the economic and political levels, but they stem—if the analysis of this paper is correct—from aberrations at the deeper levels of ethics and religion. Believing that no remedy can be successful that does not go at least as deep as the disease, it is suggested that sound economic and political theory, while imperative and good as far as it goes, does not go far enough by itself to make the case for liberty. It is further suggested that the typical added arguments from ethics are in fact substitutes for a genuine ethical theory. The difficulties that confront any effort to construct or revive an ethical consensus are alluded to, leading to an awareness of the need for reconstruction in the area of philosophy or theology. The case for liberty, in short, needs to be watertight. If there is an open seam at any level it may prove to be the gap through which liberty will be lost, for "Nature always seeks out the hidden flaw."

Mr. Opitz, an associate editor of The Freeman, *served as a member of the staff of The Foundation for Economic Education from 1955 until his retirement in 1992. He is the author of the book* Religion and Capitalism: Allies, Not Enemies, *recently republished by FEE.*

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Liberty Lost

Given a choice, most people today, will choose liberty—other things being equal. People don't give up their liberties except under some delusion, such as the delusion that the surrender of a little liberty will strengthen the guarantee of economic security. There never has been a serious anti-liberty philosophy and platform as such, whose principles people have examined, accepted, and then put into practice. Things haven't happened this way. But although we haven't chosen statism, statism is what we are getting: Speaking now not of conquered countries where liberty has been suppressed but of nations like our own where the old legal forms have been preserved, we may say that the steady attrition of liberty in the modern world is not the consequence of a direct assault by open and avowed anti-libertarians. No, the steady decline of liberty among people who sincerely prefer liberty if given a choice is the unforeseen and unwanted by-product of something else.

Liberty Regained

Many people are concerned with the plight of liberty and are working toward its restoration. The tremendous upsurge of interest in the libertarian-conservative philosophy since 1950 is sufficient witness to that fact. The libertarian-conservative camp is unanimous in its opposition to every variety of collectivism and statism, but at this point the unanimity begins to break down. Libertarians and conservatives differ among themselves in their estimate of what it takes to challenge the prevailing ideologies successfully. There are four possible levels or stages of the anti-collectivist, pro-freedom argument: the economic, the political, the ethical, and the religious. Do we need to use all four? Or is one or two sufficient? Opinions differ in the libertarian-conservative camp. Let us examine some of the arguments advanced at each level, beginning with the economic.

It is enough to expound free market economics, say some. Socialism is nothing more than economic heresy and all we have to do is demonstrate the greater productive efficiency of the free market and the socialists will retire in confusion. Freedom works, they say, and as proof point to America's superiority in computers, telephones, bathtubs, and farm products. The improvement of his material circumstance is man's chief end, and the only thing that makes a man a Communist or a collectivist is his ignorance of the conditions which must prevail if a society is to be prosperous.

Most of those who stress economic arguments add considerations drawn from political philosophy. Socialism is not only unproductive economically, but the operational imperatives of a socialist society make government the sole employer. Society is run by command, by directives from the top down, the way an army is run. The individual citizen must do as he is told, or starve. There is no independent economic base to sustain political resistance, so the population in a socialized society is necessarily reduced to serfdom. This is an inevitable consequence of a managed economy, a development which is fatal to such political goods as the Rule of Law, respect for the rights and dignity of the individual, and the idea of private ownership protected by law.

Some libertarians and conservatives agree with the urgent need to argue the case on economic and political grounds, but believe that it must be carried a stage further—into ethics. There is not, they would argue, one ethical code for politicians and another for people—there is just one set of ethical norms which is binding on rulers and ruled alike. A socialized society is poor in economic goods, and its citizens are, politically, reduced to serfs. These are social consequences of the moral violations which are built-in features of every variety of collectivism and statism. The moral violations which this argument has in mind are not simply the obvious sins of totalitarian regimes; the lying for political advantage, the murders for convenience, the concentration camps, and so on. These are included, of course, but this argument is mainly directed

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at the more subtle moral violations inherent in the operations of the welfare state.

The welfare state in America, whether run by Democrats or Republicans, is based on the redistributionist principle: "Votes and taxes for all, subsidies for a few." In actual practice, the welfare state deprives all citizens of a percentage of their earnings in order to redistribute this money to its favorites—after taking out a healthy cut to cover its own costs. Such a Robin Hood operation would be both illegal and immoral if private citizens engaged in it; and although any government can, by definition, make its actions legal, it cannot make them moral. Every variety of collectivism, therefore, is charged with ethical violations, in addition to practicing economic and political lunacy.

"Social Utility" Trap

It is at this point that a major rift begins to appear in the freedom camp. Some libertarians challenge the validity of ethical arguments. The universe, they assert, displays no recognizable ethical dimension. Says one of them: "Nature is alien to the idea of right and wrong . . . . It is the social system which determines what should be deemed right and what wrong . . . . The only point that matters is social utility." Well, all sorts of habit and customs, from primitive ritual cannibalism to using the proper soup spoon, serve the ends of "social utility," and if social utility is "the only point that matters" I doubt that the case for liberty can be made convincing, however skillful our economic reasoning.

Those who discount ethical and religious arguments get off the bus here. These sturdy fighters for freedom have made their choice of weapons and they are drawn exclusively from the arsenal of economic and political theory. But even among those who would use ethical arguments there is great difference of opinion. "Whose ethics?" they ask, or "What theory of ethics?" One group steers clear of religion, regarding it as a strictly private matter with little or no relevance to the free society. A second group regards religion as hostile to the free society. I propose to deal first with this position.

These anti-religionists employ what they label ethical arguments, as well as arguments drawn from economic and political theory, but when it comes to religion, they draw the line. They want nothing to do with this God stuff! God's existence is, in their eyes, improbable, but this is not all; religious belief is actually harmful! The title of a lecture in a series sponsored by this group is "The Destructiveness of the God Idea." They proudly proclaim themselves atheists.

There are numerous conceptions of God, and every one of us is a-theist-ic with reference to one or more of them. Most self-styled atheists are a-theist-ic with respect to a childish version of the deity. This is about on a par with not believing in the moon because some people say it is made of green cheese! In history there have been men of incomparable intellectual attainments who have been theists, who would not have been theists if they had had to believe in such a concept of the deity as the typical atheist rejects. And the same is true of contemporary theists. There are popular and degrading notions of God, but the argument is not confined to the limitations imposed by superstition!

Competing Ethical Codes

Now let me return to the first group of ethicists; those who lean heavily on ethical arguments but steer clear of the religious area. These people generally understand that in economics, liberty means reliance on the uncoerced buying habits of consumers as a guide to making economic decisions; "the market," in short. In politics, liberty implies limited government. This means that governmental action, circumscribed by a written constitution, is designed to protect the lives, the liberties, and the property of all citizens alike. But it also means that both government and constitution must operate within the framework imposed by an ethical code. In terms of this ethical code, political invasions of personal liberty and property

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are morally wrong. If an act is wrong when done by private citizens, it is just as wrong when done by public officials.

Such a statement as this assumes that private citizens and public officials acknowledge and try to live by the same ethical code. They may, or again, they may not. There is not just one ethical code in 1993; there are several competing and conflicting codes even in this country. Today, however, there is general confusion in the area of our moral values, and some contend that "right" and "wrong" are not meaningful terms. Ethical relativism is widely accepted, and this creed maintains that something which may be right in one time or place may be wrong in another time or place.

A century ago in this country the ethical code could pretty much be taken for granted; people's notion of what things were right and what things were wrong were, for the most part, deductions from a common source. We derived our ethical consensus from the prevailing religion of the West, Christianity. This ethical consensus was recognizably different, even a century ago, from the ethical consensus of Hindu society, which sanctioned the division of society into inferior and superior castes, and put millions of outcastes outside the category of human beings. It differed in important ways from the ethical consensus which had prevailed in Greece and Rome. W.E.H. Lecky's famous book, *History of European Morals* (1869), was a dispassionate account of the transformation wrought in the moral ideals of the ancient world by the introduction of Christianity.

But, although there was a nineteenth-century ethical consensus, fateful developments were pending in the realm of religion and ethics. Friedrich Nietzsche told his contemporaries, in effect: You have given up the Christian God and this means that you cannot long retain your ethical code which is bound up with this faith. Let's get back to the ethical code of the ancient Greeks! Nietzsche urged what he called "a trans-valuation of all values." Karl Marx was telling us during this period that the productive efforts of a society are the main thing; ethical, intellectual, and spiritual things are mere superstructure. The moral values of the nineteenth century, therefore, were capitalist ethics; get rid of capitalist production and capitalist ethics would follow it down the drain, to be replaced by Communist ethics. And Communist ethics, as spelled out by Lenin, are an inversion of Christian ethics. Whatever advances the Party is right and good. Lying and murder are endorsed as ethical practices if they further the cause of the Communist Party.

The ethical confusion has worsened in our own day, and become more complicated. And so an awareness grows that the kind of an ethical code *we* would endorse is by no means obvious to a lot of people; therefore, if this code is again to become an active principle in the lives of people it needs some attention.

The Lack of an Ethical Consensus

Our traditional ethical code is the end result of a particular historical development. This code is something people have learned; they have imbibed it from Western culture. It is not, in other words, a biological set of guidelines with which people come equipped at birth, as they have two hands, two feet, one head, and so on. Recognition of this fact turns up in odd places. John Dewey, himself no Christian, spent some time in China after World War I, and in 1922 he made this pertinent observation: "Until I had lived in a country where Christianity is relatively little known and has had relatively very few generations of influence upon the character of people, I had always assumed, as natural reactions which one could expect of any normal human being in a given situation, reactions which I now discover you only find among the people that have been exposed many generations to the influence of the Christian ethic." In other words, our traditional ethical code is one we have learned over the centuries in a Christian culture. We were educated into it century after century, until the past several

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generations, during which time we have been slowly educated out of it. The assumption that we can take our ethical code for granted and use it to confound the collectivists presupposes a situation that does not exist; it presupposes an ethical consensus, when it is precisely the absence of such a consensus which has helped create the vacuum into which collectivism has seeped!

As the French philosopher André Malraux tells us, we are living in the first agnostic civilization. Until the past two or three generations, men believed that their moral ideals reflected the nature of the universe. But if the universe is a complete moral blank, completely alien to notions of right and wrong, then all moral codes are merely homemade rules for convenience. A rule against murder is on the same level as a rule against driving on the left hand side of the street; there is no intrinsic difference between the two. A libertarian writer defends the integrity of scientific and economic laws as the only constants in the universe. These, he writes, "must not be confused with man-made laws of the country and with man-made moral precepts." It follows, therefore, that if men do not happen to like the ethical code they are living under they can write themselves a new one, just as easily as they can change from summer to winter clothing.

To sum up the matter: We can no longer take our traditional ethical code for granted. The foundation it was based upon has been neglected, and an ethical code, by its nature, is a set of inferences and deductions from something more fundamental than itself. We may behave decently out of habit, but ethical theory—by its very nature—must be grounded in a theology, or cosmology, if you prefer. A belief in the impossibility of ethics because the universe is a moral blank is an instance of the truism that every code for conduct is a deduction from a judgment based on faith as to the nature of things.

We hear it said frequently that individual man, in the totalitarian countries, is made for the state; but here, the state is made for man. If we say that the state is made for man, the implication is that we have come to some tentative conclusions as to what man is made for. We must have asked, and found some sorts of answers, to questions such as the following: What is the end and goal of human life? What is the purpose and meaning of individual life? What is my nature, and my destiny? Within what framework of meaning does the universe make sense? These are theological and religious questions, and when they are seriously pondered some sorts of answers are bound to come.

That things are senseless and individual life without meaning is one sort of an answer. Once this answer is given, it will start to generate an appropriate ethical code. This is a sort of salvage effort to which the works of the late Albert Camus were devoted. "I proclaim that I believe in nothing," he writes, "and that everything is absurd." The only appropriate response to this act of faith is rebellion, arising "from the spectacle of the irrational coupled with an unjust and incomprehensible condition." This is one reading of the universe and the human condition, together with an appropriate recommended code of conduct. It is, therefore, a religion, although the number of its adherents do not appear in any census. In passing, one might remark that it is a curious kind of "incomprehensible condition" from which a man can apprehend enough to write several books about it! Communism is another contemporary religion. Its universe is a materialistic one, but the universe contains a dynamic force—the mode of production—which is working toward the fulfillment of history in a classless society. And there is an appropriate code of conduct enjoined upon all good Communists.

Choosing Christianity

There is a third option which makes considerable sense to me, and that is Christianity. Such a statement comes as no surprise, and you are probably telling yourself that I, as a professional religionist, have a vested interest in offering just such a conclusion. Permit me, therefore, to digress and sound an autobiographical note. If anyone had told me during my high school years, or

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up to my senior year in college that I'd wind up as a minister, I'd have taken it as a personal affront! As things turned out, however, I did find myself in theological school after college, but before the first year had gone by I had decided that the ministry was not for me. I was skeptical about theological matters and decided to go into the field of psychology. In theological controversy it seemed to me there were good arguments in favor of all the basic doctrines, and good arguments against. How, then, does one tip the balance in one direction or another? On the level of doctrinal theory it was difficult for me to say. To make a long story short, I finally returned to theological studies, got my degree, and—full of misgivings—was foisted upon an innocent and unsuspecting congregation.

During these years I held to a parallel set of interests in economics and political science. I was a libertarian before I ever heard the word, based on an acquaintance with the thinking of the Classic Liberals and a prejudice in favor of freedom. But my social thinking was in one compartment and my religion was in another. Unbeknownst to me, however, these two things were on a collision course, and it was fated that one day they should bump into each other. They did, and lots of things began to fall into place. I became aware of what Christianity had meant to Western civilization and to the framing of America's institutions, and before long I had the ingredients to tip my theological balance in the direction of firmer religious convictions. I also knew why Classic Liberalism failed, although it had played its own game with its own deck—it lacked the religious dimension which alone makes life meaningful to individuals and provides a foundation for ethics.

People were freer in the nineteenth century than men had ever been before. This period was the heyday of Liberalism, but it also happened to be the twilight of religion. Large numbers of people became uncertain about the ends for which life should be lived. Lacking a sense of purpose and destiny they were afflicted by the feeling that life has little or no meaning, that the individual doesn't matter nor his life count. Just when people had the most freedom they lost touch with the things which make freedom really worth having. Freedom had once been affirmed as a necessary condition for man if he were to achieve his true end, but when the religious dimension dropped out of life the advocates of freedom got themselves into a "promising contest" with the collectivists as to which could outpromise the other when it came to delivering the maximum quantity of material things. As was to be expected, the collectivists outpromised their opponents, although their actual performance must forever fall short. Liberty, in other words, is recognized for the precious thing it really is when significant numbers of people know that they must have it in order to work out their eternal destiny.

There are two things I am not saying. I am not saying that we have to cook up or feign an interest in religion merely to accomplish political or economic ends. Such efforts would be fruitless, but even if they were effective I'd oppose them. Secondly, I am not saying that men who, for reasons of their own, cannot embrace religion and ethics, cannot therefore be effective champions of free market economics and limited government. There are technical areas in political theory, and especially in economics, where a lot more enlightenment is needed, and where there is no impingement on the domains of ethics and religion. Nonreligious libertarians may be invaluable here. Even so, they cannot touch all bases. The man who is a socialist for religious or ethical reasons won't be shaken in his convictions by economic and political arguments alone; his religious and ethical misconceptions must be met on their own ground.

Utilitarianism

At this point I shall be reminded that economists, after Adam Smith to the present day, do tend typically to hold some variety of the ethical theory known as Utilitarianism, which dates back to Jeremy Bentham and John Stuart Mill in the early and middle part of the nineteenth century.

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But as Mill himself pointed out, the creed has a long history, dating from Epicurus in the third century B.C.

Utilitarianism states its principles in various ways, but invariably it emphasizes two cardinal points—maximum satisfaction and minimum effort. Man, in terms of this theory, acts only to maximize his happiness, pleasures, satisfactions or comfort, and he seeks to do this with a minimum expenditure of energy. Utilitarianism has little or nothing to say about the spiritual, ethical or cultural framework within which its "maximum economy—maximum satisfaction" principle operates. It minimizes or denies life's spiritual dimension, it uses the word "good" in a non-ethical sense, i.e., equivalent to "happiness producing," and it asserts that men are bound together in societies solely on the basis of a rational calculation of the private advantage to be gained by social cooperation under the division of labor.

The Utilitarian proposition that each man invariably tends to achieve his ends with a minimum of effort says nothing about the means he may or will use. The "maximum economy" principle, when it first took over as a conscious maxim of human behavior—in nineteenth-century England—operated within the value system or ethical code persons happened to have at the time. The ethical code in the West during the period of the appearance and gradual acceptance of the "maximum economy" principle—during the past century—was largely a product of the religious heritage of Europe. This ethical legacy assured that although men would tend to take the line of least effort in the attaining of their ends, they would at the same time use only those means which are compatible with the moral norms enjoined by their religion. Moral norms are restraints on certain actions, and if the "maximum economy" principle is fervently accepted it must go to work on the restraints embodied in the ethical code whenever they interfere with the line of least resistance between a man's aims and their realization. The "maximum economy" principle, by its very nature, necessarily sacrifices means to ends, and in the circumstances of the modern world Utilitarianism begins to undermine the old ethical norms wherever these impede an individual's attainment of his economic ends.

Robbery, it has been observed, is the first labor saving device. If a man accepts, without qualification, the precept "Get more for less" as his categorical imperative, what will he do when a combination of circumstances presents him with a relatively safe opportunity to steal? His ethical compunctions against theft have already been dulled, and the use of theft as a means of acquiring economic goods is one of the possible logical conclusions that may be drawn from the "greatest economy" principle. Theft is, of course, forbidden in many of the world's ethical codes, and conformity to these codes over the millennia has bred a reluctance to steal in most men. Thievery there has been aplenty despite the bans, but it has been accompanied by a guilty conscience. The "maximum economy" principle, when first accepted, is applied to productive labor within the framework of the code. But if the idea of "Get more for less" is a principle, why not apply it across the board?

There are two impediments to a man's acquisition of economic goods: First, there is the effort required to produce them, and second, there is the prohibition against stealing them. The former is in the nature of things, but the latter comes to be regarded as merely a man-made rule. The "greatest economy" principle goes to work on the first impediment—productive effort—by inventing labor saving devices; it goes to work on the second impediment—the moral code—by collectivizing it. It reduces the commandment against theft to a matter of social expediency.

Society is admonished against theft on the grounds that a society in which property is not secure is a poor society. But this truism offers no guidance to the individual who finds himself in a situation where he can steal with relative impunity. To the extent that he is emancipated from "outmoded" taboos and follows the line of least resistance, he will steal whenever he thinks he

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can get away with it, and to make theft easier and safer he will start writing a form of theft into his statutes: "Votes and taxes for all, subsidies for us." Utilitarianism, in short, has no logical stopping place short of collectivism. Utilitarian collectivism is not a contradiction in terms, although particular Utilitarians, restrained by other principles, may stop short of collectivism.

Utilitarianism purports to be a theory of ethics; man ought to act, it declares, so as to augment the quantity of satisfactions. It is usually linked to a theory of motivation which sweepingly declares that every human action aims at improving the well-being of the acting agent: "acting is necessarily always selfish." Capitalism, it is asserted, is based on this deterministic psychology. The militant atheist group mentioned earlier adopts what it calls a morality of self-interest. "Morality is a rational science," we read in their literature, "with man's life as its standard, [and] self-interest as its motor." "Capitalism," the author continues, "expects, and by its nature demands that every man act in the name of his rational self-interest." Let us examine this unqualified assertion. Capitalism, or the market economy, begins to work automatically in a society where there is a preponderance of fair play and an evenhanded justice in operation. Lacking these essential conditions capitalism cannot be made to work. Here's a person with more shrewdness than ability; he has little energy and fewer scruples. On the market, the verdict of his peers is that his services aren't worth very much; so he consults his rational self-interest—unimpeded by old-fashioned ethics—and learns that his shrewdness and lack of scruples admirably equip him to operate a racket. He starts one, and becomes wealthy and famous. Would anyone care to try to convince an Ivan Boesky, for instance, that it is really to his own self-interest to play the game fairly even though this would put him behind the wheel of a bakery truck at $160.00 per week? How can the anti-capitalistic mentality, if it is true to itself, and acts in its own self-interest, project a capitalist society? The answer is, it can't.

Some accidents of history shattered our society's ethical and religious framework just at the time when free market economists came forth armed with insights into human behavior in the areas of production and trade. But because men respond one way in one sector of life it cannot be inferred that they respond the same way everywhere, nor that they should. Oddly enough, it is precisely free market economists themselves who best embody this truism. Free market economists in these days find a poor market for their services. There is, on the other hand, a great public demand for the tripe palmed off as the new economics by the "social scientists."

Resisting all such market demands the free market economists stand by their principles even though this means that, with motives impugned, they are lonely voices, victims of academic and professional discrimination. Why do they not yield to pressure of popular demand, as they themselves advocate should be done in the realms of production, trade, and entertainment? Does the market demand ridiculous spike-heeled shoes and mismatched clothes? Then give the public what it wants, say the free market economists; in the realm of material things, the majority is always right. Are there complaints about the high salaries of rock wailers and Hollywood sex symbols, coupled with laments about the low estate of the legitimate theater? Yes, but not from free market economists who conceal any disgust they may feel and merely say, "Let the public be served." But when it comes to the realm of ideas the economists, to their enormous credit, ignore the market—public and majority pressures—and do not trim or hedge or yield an inch on their convictions. In other words, they operate with one set of principles in the realm of material things—"Give the public what it wants"—but they invoke another set of principles when they enter the realm of economic ideas—"Resist public pressure on behalf of intellect and conscience." Oddly enough, however, there is nothing in their philosophy to legitimize the second set of principles. They know by a kind of instinct or intuition that

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ideas or opinions which have a price tag attached—as if they were marketable commodities like any other—aren't worth much, and neither is the person who hawks them. But instincts and intuitions, however civilized and humane, are largely uncommunicable.

Conduct, however exemplary, cannot make its point when it is tied to a philosophy which alleges that the game of life has no rules; therefore, seek private advantage, maximize personal satisfactions. No matter how such ingredients as these are combined they won't result in a philosophy of liberty. This needs something else, namely, a framework of values which makes possible a different approach. The restoration of our ethical consensus and the repair of our value system brings us to arguments on the religious level. The traditional arguments in this area won't be given a fair shake by our contemporaries unless there is a contemporary approach to them which really confronts us with them. Perhaps there is such an approach.

The City of God and The City of Man

Christianity introduced a concept into the thought of the West which is alien to the thinking of Plato and Aristotle, the two major thinkers of the ancient world. This new concept has been called, after Augustine, the idea of the two cities: the City of God and the City of Man. Man, it is asserted, holds his citizenship papers in two realms, the earthly and the heavenly. He is to negotiate this life as best he can, seeking as much justice and such happiness as this world permits, but in full awareness that his ultimate felicity may be attained only in another order of existence.

This concept would have been largely incomprehensible to the Greeks. Man, for Aristotle, was a political animal who might find complete fulfillment in the closed society of the Greek city-state. A standard work on this aspect of Grecian life is Ernest Barker's *Political Thought of Plato and Aristotle* (1906, 1959), and a few sentences from this book convey the flavor of the Greek outlook. Summarizing Aristotle, Barker writes: "The good of the individual is the same as the good of the society . . . . The notion of the individual is not prominent, and the conception of rights seems hardly to have been attained." Speaking of Socrates, Barker writes, "For him there was no rule of natural justice outside the law; law is justice, he held, and what is just is simply what is commanded in the laws." Ethics and politics are one, and there is no distinction between Church and State. The city-state, "being itself both Church and State . . . had both to repress original sin —the function to which medieval theory restricted the State, and to show the way to righteousness—a duty which medieval theory vindicated for the Church."

After the decay of ancient society and the polarization of Church and State, the distinction between spiritual and secular power in Europe and America for the past nineteen centuries guaranteed that there would always be some separation and dispersal of power within the nation. But with the dropping of the religious dimension from modern life we return to the unitary state in both theory and practice. This was obvious to Barker early this century as he foresaw the rise of the welfare state: "It seems to be expected of the State that it shall clothe and feed, as well as teach its citizens, and that it shall not only punish drunkenness, but also create temperance. We seem to be returning to the old Greek conception of the State as a positive maker of goodness; and in our collectivism, as elsewhere, we appear to be harking 'back to Aristotle.'"

Christianity introduced another concept into Western thought which has had an effect upon our thinking about government, the concept of the Fall. Christian thought distinguishes between the created world as it came from the hand of God, and the fallen world known to history; between the world of primal innocence we posit, and the world marred by evil, which we know. It follows from this original premise that Christian thought is non-behaviorist; it is based on the idea that the true inwardness of a thing—its

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real nature—cannot be fully known by merely observing its outward behavior. Things are distorted in the historical and natural order, unable to manifest their true being. Man especially is askew. He is created in the image of God, but now he is flawed by Sin.

Some political implications may be drawn from these premises: It has been a characteristic note in Christian sociology, from the earliest centuries, to regard government not as an original element of the created world but as a reflection of man's corrupted nature in our fallen world. Government, in other words, is a consequence of sin; it appears only after the fall. Government is an effect of which human error and evil are the causes. Government, at best, is competent to punish injustice, but it cannot promote virtue. In other words, the Christian rationale for government is incompatible with the total state required by collectivism. When the Christian rationale for government is understood and spelled out, the only political role compatible with it is the modest function of defending the peace of society by curbing peace breakers. When government is limited to repressing criminal and destructive actions, men are free to act constructively and creatively up to the full limit of their individual capacities.

We arrive at a similar conclusion by contemplating the second half of the Great Commandment, where we are enjoined to love our neighbor as ourselves. The bonds that should unite people, it is here implied, are those of unyielding good will, understanding, and compassion. But in collectivist theory, on the other hand, people are to be put through their paces by command and coercion. This is the nature of the means which must be, and are being, employed in even the most well-intentioned welfare state. In practice, every collectivized order careens toward a police state whose own citizens are its first victims. The love commandment of the Gospels, brought down to the political level, implies justice and parity and freedom. There is no way to twist these basic premises into a sanctioning of the operational imperatives of a collectivist society.

The argument from liberty to Christianity has now been sketched in outline. Those who would limit the defense of liberty to a discussion of free market economics, with an assist from political theory, have a genuine role to perform, as far as they go. And if they cannot bring themselves to accept the truth of ethics and religion, integrity demands that they refuse to pretend otherwise. Their economic arguments are much needed, and thus they are invaluable allies in this sector. But liberty has not been lost on this level alone, and it cannot be won back on this level alone.

We are confronted, not only by highly developed and sophisticated arguments for socialism and communism, but by fully collectivized nations.

Before there was ever a collectivist nation, there was a collectivist program. Before there was ever a collectivist program, there was a collectivist philosophy. Before there was ever a collectivist philosophy, there were collectivist axioms and premises, with appropriate attitudes toward life, and an appropriate mood.

The roots of collectivism go this deep, right down to our basic attitude toward the universe and our primordial demands on life. This is the level of a man's fundamental orientation of his life, the level at which religion begins to do its work. We must get squared away here, otherwise our thinking on the other levels will be distorted. But with a proper religious orientation—at this fundamental level of basic attitudes and mood—we can work out a philosophy of freedom.

When we have worked out the philosophy of freedom, we can advance a program based upon it.

And when we have a freedom philosophy and program we will eventually get a free society. This sounds like a laborious route to take, and it is. But life doesn't serve up many short cuts. □

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THE FREEMAN
IDEAS ON LIBERTY

Is "Freedom" An Antiquated Term?

by Wilma J. Moore

Some of George Orwell's memorable insights in the novel *1984* concern the power of language. The function of Newspeak was not merely to express ideas but to manipulate them so that freedom would come to mean slavery and ultimately to be embraced willingly as such.

It would seem that much subtle manipulation of language is going on today. In a world that seems to be rejecting Communism and questioning its partner socialism, the purveyors of collective social and economic theories are still vigorously proselytizing their vision of a brave new world. Though the message is not being proclaimed in terms as blunt as "class conflict," "equal distribution of wealth," "centralized economic planning," or "dictatorship of the proletariat," the collective meaning inherent in these expressions is being shifted to other more acceptable words and phrases.

An example of this subtle linguistic mutation is the word "subsidy." The dictionary meaning is straightforward: a grant of money by the government to a private enterprise to effect public benefit. The implication is that the government first takes part of the wealth of all taxable individuals, and then distributes it to private entities to perform some service from which ostensibly all those individuals will benefit, e.g., police protection, garbage collection, or street sweeping. What is important here is the implication that the wealth being transferred is first private wealth belonging to the citizens who earned it, and only after taxation does it then become government wealth.

How is the word "subsidy" being transformed before our eyes? Let me give you an example: The newspaper in my medium-sized California city features a columnist who is ostensibly a "spokesperson" for modern feminism of the leftist variety. No, she doesn't indulge in rabid, hate-all-things-masculine-and-[wo]man-the-barricades prose, but her very reasonableness and low-key style make her use of language an important barometer of leftist thought.

In a recent article she aimed her guns at the inaccurate stereotype of the welfare mother who lives "high on the hog" with public money. Her particular example was that of a woman whose husband had left her just before the birth of their fourth child. The gist of the article was that public assistance helped this woman keep her family together and allowed her ultimately to attend law school and become an attorney.

The ex-welfare mother attorney was interviewed in the article and described the demeaning way in which the welfare office had treated her and other mothers on public assistance. Along with the benefits she had received, she described the roadblocks which the bureaucracy had placed in the

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way of anyone trying desperately to get off welfare, how eligibility workers were more fond of pushing people into low-paying dead-end jobs than into higher paying professions. Neither the columnist nor the attorney advocated scrapping the system. In good socialist fashion they placed the blame upon an unfeeling public which nurses the unfair stereotype and which rails at the system's obvious waste and inefficiency.

The last paragraph of the article reveals the subtle shift in thought which has given new meaning to the word "subsidy." The attorney contrasted the welfare mother on $600 a month of government money to a "wealthy businessman" who "doesn't have to pay taxes." In her mind the latter situation is "the same as being subsidized." She ended the article with the attorney's comment, "Who do you want to give your money to?"

Obviously, the article writer was not above allowing the stereotype of the wealthy businessman to aid her in her crusade to reverse an unjust stereotype of the welfare mother. Neither was she above using a brand of Newspeak in drawing the conclusion that the welfare check and the tax write-off are both government subsidies.

There is only one premise that would support the notion that these are one and the same and that "your" money is being given to the businessman as well as to the welfare recipient. That premise is that all wealth, regardless of how it is generated or by whom, first belongs to the state, a blatantly collectivist idea dear to every Marxist visionary.

If this notion is becoming part of the accepted definition of subsidy, then we must wonder what other concepts are undergoing subtle semantic changes. Is it possible that freedom of speech will become freedom to use only socially correct words and phrases? Could the right to ply one's trade become a privilege licensed by the government? Could the term private enterprise come to mean licensure, government franchise, and state monopoly? Could the right to own private property come to signify a privilege granted by the sovereign state on condition of approved use and the payment of taxes? Could independence come to mean need? Could freedom come to mean slavery? Does it already? □

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THE FREEMAN
IDEAS ON LIBERTY

ANTITRUST REGULATION: BACK TO THE PAST

by D. T. Armentano

There is a disturbing new activism in antitrust policy that threatens to spell trouble for consumers.

Last year Attorney General William Barr proposed to apply U.S. antitrust law extraterritorially to the Japanese *keiretsu* system of closely linked firms. The House Judiciary Committee appears ready to recommend the repeal of the McCarran Act, the property/casualty insurance industry's fifty-year exemption from federal antitrust law. And the Justice Department has initiated a wide-ranging antitrust investigation of pricing practices in the air carrier industry where there has been increasing concern about market concentration.

Current antitrust attitudes are somewhat reminiscent of the pre-Reagan era. Traditional antitrust enforcement (1945–1980) had been based on the theory that firms in concentrated markets could restrict competition, raise prices, and misallocate economic resources. This position was discredited when antitrust critics (such as Robert Bork) argued that market share and concentration were related to economic efficiency and not "monopoly power." Other scholars argued that the antitrust laws themselves had been employed (by private and public plaintiffs) to protect less efficient competitors and not the competitive process. This argument and case analysis, together with some key administrative appointments, paved the way for modest changes in antitrust enforcement in the 1980's.

Reagan's trustbusters initiated price-fixing cases consistent with the (dubious) theory that attempts at horizontal price collusion seriously threaten the competitive process. But there were fewer cases involving high market share, mergers (within more liberal guidelines), price discrimination, tying agreements, or "predatory" practices since these activities were thought to promote economic efficiency and consumer welfare.

Is there now sufficient reason to abandon the 1980's antitrust mini-revolution? Hardly. The congressional and Bush Administration antitrust initiatives are misguided attacks on the competitive process—in the name of protecting it. And special interests—who would directly benefit by regulatory protectionism or increased litigation—are again spearheading the drive for a more "vigorous" enforcement of antitrust law.

Any rational antitrust policy depends upon resolving the ambiguity over the meaning of "competition." Some free-market

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economists hold that competition is an unfettered market process of discovery and adjustment under conditions of uncertainty that involves both business rivalry and cooperation. The more traditional academic position, however, is that competition exists only if firms have relatively small market shares, entry is "easy," firms do not cooperate (collude), and if economic profits tend toward zero. The first view sees little value in any antitrust intervention—other than to ensure that markets are legally open. The second view envisions a robust regulatory agenda where trustbusters act to preserve a "competitive" market structure and "competitive" firm behavior.

The traditional competitive model is irrelevant in a dynamic business world with imperfect information. Antitrust attempts to micro-manage market structure or firm behavior to comply with that model's arbitrary assumptions would be destructive of efficiency and competition. Especially pernicious would be attempts to interfere with inter-firm cooperative arrangements—which trustbusters routinely mislabel as "collusive." Contrariwise, business cooperation is essential in achieving the economic efficiencies that will keep firms competitive in tomorrow's international marketplace.

Business Cooperation, Efficiency, and the Competitive Process

The new antitrust initiatives continue to misconstrue the relationship between business cooperation, efficiency, and the competitive process. In the Japanese *keiretsu* system, for example, many large firms have formed "industrial groups" with informal patterns of cooperation between suppliers, manufacturers, distributors, and banks. Some of these cooperative arrangements have produced substantial efficiencies in the use of resources, especially information, and have made the member firms better overall competitors. Yet the wrong-headed antitrust concern here is that these efficient inter-firm alliances create "entry barriers" for U.S. exporters while they lead to lower import prices here. Instead of allowing similar patterns of cooperation in the U.S., the antitrust regulators appear anxious to threaten efficient foreign suppliers with litigation.

The current attempt to repeal the insurance industry's antitrust exemption is a similarly misconceived attack on cooperation. Critics of the industry's performance have argued that the exemption allows collusive agreements that restrain trade and increase rates to policy holders. But with over 3,500 firms of different sizes, low market concentration, and easy entry, any talk of effective price collusion strains credibility. The antitrust exemption is required so that the firms can share loss-experience data and cooperate in the underwriting of large risks.

Currently the most important antitrust risk is in the air carrier industry. The 1978 deregulation led directly to an expansion of service, lower prices, and to a reorganization of routes, equipment, and corporate assets—all without any antitrust meddling. But now important sentiment exists to use antitrust to re-regulate market structure and firm behavior. Critics hold, among other things, that the computer reservations system (CRS) owned by the major carriers must be additionally regulated (or divested) and that the industry's overall pricing system is likely collusive and illegal.

The antitrust regulation of technology would not be intelligent public policy. Several of the larger carriers (led by American and United) invested heavily ($200 million) to develop a CRS which now provides information efficiencies to the traveling public. Any antitrust divestiture of the CRS would create strong disincentives for future technological investment; it would also provide unearned windfall benefits to the smaller carriers. Level playing field and fair trade arguments are as irrational in antitrust as they are in international trade. Economic welfare is not advanced by protecting less efficient suppliers from an improved technology or by expropriating the benefits of risky entrepreneurship.

The Justice Department has also initiated an investigation of the pricing process em-

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ployed by the air carriers. Changes in fares are announced through an electronic clearinghouse (Airline Traffic Publishing Co.) *before* they are actually put into effect; fares are then adjusted upward or downward depending upon how rivals react to the announcements. The trustbusters are apparently concerned that this system of pricing encourages subtle "price signaling" which may well be a form of price collusion prohibited by law.

Is this pricing process anti-competitive? Yes, if the relevant benchmark is the traditional competitive model where demand and supply information is fully known and firm behavior is never interdependent. No, if competition is a discovery and adjustment process under conditions of uncertainty with imperfect information.

Firms certainly intend to communicate (signal) information to passengers and rivals when they announce fares. In addition, firms intend to discover information from the reactions of rivals and readjust their own prices accordingly. Market uncertainty and interdependence create a market process where air carriers must search constantly for the price and service combinations that maximize their competitive advantage. But this trial-and-error process does not restrain trade, as is evidenced by the current price wars and by the financial history of the industry since deregulation.

All of the new antitrust initiatives should be rejected. Federal and state trustbusters have neither the incentive nor the information to manage industrial structure or firm behavior intelligently. The visible hand of antitrust should only be used to remove legal barriers to business rivalry and cooperation. Issues such as firm size, market share, pricing behavior, technological change, and inter-firm cooperation should be left to the invisible hand of the market process. □

IDEAS ON LIBERTY

Ten Thousand Commandments

The breakup of the leading integrated companies and the divorce, divestiture, or dissolution of the biggest producers and distributors, whether integrated or not, is a luxury the country cannot afford. Its "great concentrations of economic power" in American industry are more essential to the nation's defense than its great concentrations of administrative power in Washington.

The new interpretations of the antitrust laws endanger the political structure of the country. They disintegrate the law, making it a respecter of persons, which tends to be no law at all. They upset the balance of power between Congress and the courts, by judicial legislation, which is a usurpation of Congress' role. Whatever "power" they take away from business organizations will not revert to the people but is automatically being appropriated by government agencies.

—Harold Fleming

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THE FREEMAN
IDEAS ON LIBERTY

ARE THERE TOO MANY LAWYERS?

by Joseph S. Fulda and Patrick J. Vincent

It might appear that the question "Are there too many lawyers?" reeks of the discontent with the market that still prevails among the elites who support the discredited models of the managed economy. Indeed, given world events, no one should have to answer questions such as "Are there too many shoemakers?" It is simply up to consumers willing to pay certain amounts for shoes, accessories, and repair—the demand schedule—and up to would-be shoemakers willing to offer their services at certain wage rates—the supply schedule—to jointly determine the number of shoemakers.

Closer analysis, however, as well as some startling data suggest that lawyers providing legal services to plaintiffs are in a class of their own. Yes, there is a market for legal services and, yes, a free-market society does have a place for actions at law. Notwithstanding this, however, legal services are fundamentally different from other services, simply because lawyers must use the law—the State—to give plaintiffs the property of defendants. Today's plaintiffs' bar is expert at using the law to attain wealth by what Albert Jay Nock called "the political means" rather than "the economic means"—i.e., by redistribution of existing wealth rather than the creation of new wealth. Indeed, it is clear that the very same ethos that informs legislative redistribution is responsible for judicial redistribution: the cultivation of a state of mind which asserts the victimhood of select groups. While legislative redistribution typically focuses on race, gender, ethnicity, poverty, and similar "victims," judicial redistribution typically focuses on class interests, among them: tenants, consumers, employees, and those suffering from injury, illness, or loss of function due to unfortunate accidents that are no one's fault.

Besides the moral point, judicial intervention—like all strictly redistributive processes—results in a far less robust economy, one designed to avoid judicial redistribution rather than one designed to create and produce. Empirical support for this conclusion abounds: (1) The United States has only five percent of the world's population, but has fully seventy percent of the world's lawyers. (2) We spend more than eighty billion dollars a year on direct costs of litigation and on insurance premiums and a total of three hundred billion dollars on indirect efforts to avoid liability. (3) The threat of litigation has caused 47 percent of manufacturers to withdraw products from the market. (4) The threat of litigation has also discouraged no less than 25 percent of manufacturers from some types of product research. (5) Largely due to the fees brought

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in by the plaintiffs' bar, our trial lawyers are the best-paid attorneys in the world. (6) *Per capita*, we have 30 percent more lawsuits than do the Japanese, one of our main competitors in the creation of wealth. (7) In Japan, the ratio of engineers to lawyers is 20 to 1, but in this country it is 2.5 to 1.[1]

At this point it is well to make some qualifications. First, it *is* true that the market may decide that the potential harm of a risky good or service outweighs its potential benefits. The market properly both embraces and limits risk, as reflected in the supply and demand schedules for risky goods and services. Second, liability for civil wrongs—torts—remains a powerful disincentive for fault, and one that works. Third, contingency fees do allow access to the courts by those with a genuine complaint who cannot afford to retain counsel.

Unfortunately, however, far too many folks welcome the chance to be plaintiffs, since being a plaintiff is cost-free. The contingency-fee cases that the plaintiffs' bar handles—principally malpractice and product liability cases—allow any number of lawsuits regardless of the merits of the complaints. Indeed, since there is no effective penalty for frivolous lawsuits, the demand schedule is potentially infinite, restrained only by a vague sense in ordinary citizens on what is properly the subject of a suit at law and what is not. But the statistics above show nothing if not that such sensibilities are rapidly disappearing, and when obstetricians stop delivering babies *en masse*, it is time to restore some limits on the demand schedule for lawyers.

The most obvious reform, long advocated by many, is to require unsuccessful plaintiffs to pay the defendants' legal fees. A second reform is to make the system inherently less redistributive, by changing the burden of proof. The present system allows redistribution from defendant to plaintiff when there is "a fair preponderance of the credible evidence," i.e., with just 51 percent of the merits in the matter. Whatever happened to the old adage, "Possession is nine-tenths of the law?" The standard currently used for some federal suits, "clear and convincing evidence," is much to be preferred.

It cannot be emphasized enough that the only way to genuinely improve the lot of the masses is by the creation of new wealth rather than the redistribution of existing wealth. As Governor Richard Lamm put it, "No nation in history has ever sued its way to greatness."[2] □

1. David Gergen, "America's Legal Mess," *U.S. News and World Report*, August 19, 1991, p. 72.
2. *Ibid.*

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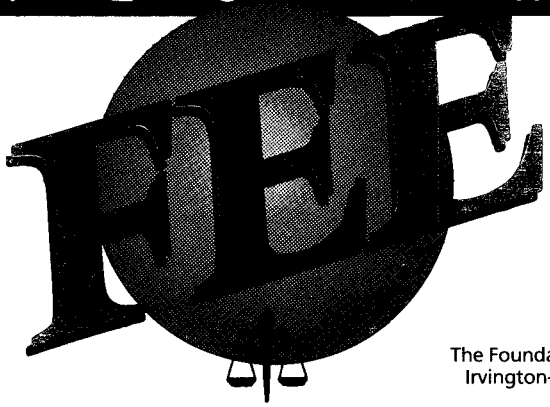

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CONGRESSIONAL PROFLIGACY

To most Americans the $4 trillion federal debt is like another galaxy, trillions of light years away. It is as interesting and irrelevant as the Milky Way.

Economic knowledge and logical reasoning are needed to perceive the debt as a vast pyramid of wealth consumed; that deficit spending destroys wealth and substance and mortgages the future; that it is a potent prescription for stagnation and poverty; an open invitation to more inflation; and the cause of much social and political conflict.

To most members of the U.S. Congress who incurred and pyramided the debt, the issue is purely political. They see no problems of morality, which is of a fixed eternal nature. They are political pragmatists aiming at "solving problems," especially the problem of getting re-elected and advancing their own political careers. They usually are guided by erroneous notions and doctrines which are advantageous to them when shared by the majority of the electorate.

Most politicians labor under the influence of the exploitation doctrine. They are convinced that the private-property, individual-enterprise economic order shortchanges working people while it serves the interests of capitalists and entrepreneurs. Prodded by such notions they seek to "redistribute" income and wealth. But this redistribution principle usually gives way to a yet higher law, the re-election axiom. Redistribution must bring political advantages without which there would be little redistribution. The social class that is most numerous and powerful at the polls receives most favors, which explains the numerous benefits of the "middle class" and the elderly rather than the wretched poor. Politicians call this representing the majority interests of their districts.

Political parties consist of people working together to establish, promote, or gain acceptance for a policy they pursue in common. Despite the traditional organization of just two major parties, the U.S. Congress actually embodies three different parties. There is the Parochial Party living by the "parochial imperative." Democrats and Republicans, liberals and conservatives elevate local interests over all others, seeking to bring new federal spending into their districts. They are eager to secure subsidies for any and all economic interests in their districts. They fight valiantly to prevent reductions in spending by federal facilities in their districts. They may even oppose deregulation, competitive bidding, and open markets if this benefits the interests of their constituents.

There is the Vocational Party living by the "vocational imperative." These politicians are akin to the Parochialists living by the principle of securing bene-

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fits for certain vocations and occupations which are most numerous and powerful in their districts. There are the peanut representatives, tobacco representatives, sugar representatives, the agents of wheat growers, dairy farmers, tuna fishermen, labor unions, and many others. Nearly one half of all U.S. senators and representatives sought and received the endorsement of the AFL-CIO. They can be expected to plead the case for union power and privilege.

To justify benefits and privileges, the members of both parties, like talkative highwaymen, wax eloquent about the benefits of redistribution. Their maxim of behavior which unites and distinguishes them from others is their love of coercion. They depend on judges, politicians, and tax collectors to grant benefits to some and withhold them from others, to seize income from affluent taxpayers and grant it to their most numerous voters. They are quick to mete out fines and prison sentences to the resisters.

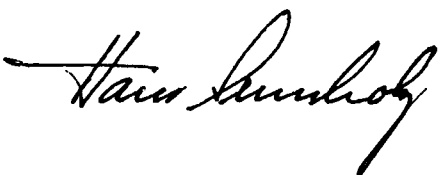
The third political party is rather small. It consists of a few representatives of all Americans, regardless of location, vocation, union affiliation, creed, color, or ethnic background. They do not vote for handouts to peanut growers, dairy farmers, or privileges for labor unions. In fact, they may cast their votes against any and all attempts at redistribution, at benefiting some people at the expense of others. They do so on moral or economic grounds which invariably draws the wrath and ire of all redistributionists and advocates of brute force.

Despite all the ugly opposition, a few brave souls tend to hold forth in the U.S. Congress. Although they formally belong to one of the major parties, they actually are the representatives of a Consumer Party. Always defending the interests of all Americans, they are unalterably opposed to production restrictions which depress economic output and lower standards of living. They oppose political favors and handouts which distort economic production and cause social conflict. And even if an unhampered economy were less productive than the politicized economy, they would choose freedom over license. Freedom, to them, is the liberty to follow their own will in all things, and not to be subject to the uncertain, unknown, arbitrary will of another man. Freedom offers a thousand delights which the wards of the welfare state, no matter how contented, will never know.

Representing the genuine interests of all Americans, the Consumer Party does have the potential of becoming the greatest party of all. After all, it is the party of every homemaker who is vitally interested in low prices for the greatest variety of goods and services. It is the party of the poor and underprivileged whose comforts and well-being depend directly on the availability of economic goods at low prices. In fact, it is the party of all the people except the legislators and regulators who are pure tax consumers. And even their properly understood interests are identical with those of a free society.

If a Consumer Party has such political appeal and potential, why then does it lack any formal structure and why are its few spokesmen scattered over the traditional parties? The answer to this vexing question lies in the powerful voice of the redistributionists defending their benefits. There are 18.3 million civil servants with more than 30 million dependents living—and some feasting—on the taxes they extract. There are many more millions of recipients of political largess who valiantly defend their exactions. They all are rather fearful of freedom and the market order.

Man can rise above his short-run material interests. He can be guided by the light of reason which reveals the painful consequences of the entitlement system. He may also realize that morally evil acts have bad economic consequences.



Hans F. Sennholz

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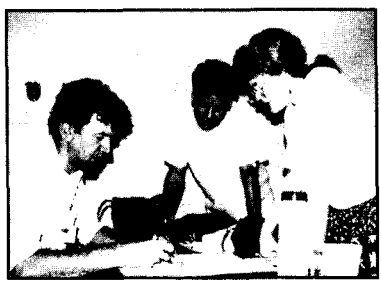

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THE FREEMAN
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Zoo, Inc.

By David Haarmeyer and Elizabeth Larson

What do you do with a homeless peacock? Zookeepers had to deal with such problems when the Petting Zoo at Manhattan's Central Park closed in 1991 because of New York City's budget troubles. Most of the petting zoo's inhabitants found new homes with local families. Fortunately for both zoo animals and the children who visit them, many cities are privatizing their zoos rather than letting the gates close for good.

For years, private zoological societies worked alongside city zoo officials, raising funds and running education programs and concession stands. Now, as local governments are forced to rein in runaway budgets, zoological societies are taking charge of operating entire zoos. Nearly 40 percent of the 165 American zoos accredited by the American Zoological Association—among them, zoos in Fort Worth, Cincinnati, New Orleans, San Diego, and Jackson, Mississippi—are run by private, nonprofit societies. And that figure is on the rise: Officials in Boston, Pittsburgh, Milwaukee, Fresno, California, and Birmingham, Alabama, among other U.S. cities, are now considering privatization as well.

The success of privately financed and managed zoos should not be surprising. After all, running a zoo is foremost a problem of managing resources. Like large corporations, good zoos operate by balancing a number of potentially conflicting objectives: education, research, conservation, and recreation. Shutting off the flow of subsidies from general taxpayers (many of whom may not have a taste for zoos) makes good management essential, benefiting both a zoo's animals and its patrons.

The fact that privately operated zoos may spend only what funds they raise necessitates cost-effective operations—managers who keep their eyes on the bottom line—as well as creativity—more exotic animals, grander housing that actually looks like the plains of the Serengeti or the jungles of Brazil, high-tech, hands-on experimental displays for kids that are fun and educational. In striving to please zoo patrons, good zookeepers will improve the well-being of their animals, ensuring not only clean concession areas but clean zoo cages.

Financial independence brings two other important aspects to zoo management. In addition to revenue from admissions and concessions, zoos depend on donations from local families, corporations, and nonprofit groups. These sources tend to donate more to private organizations than to government programs, over which donors have little control. Unlike government, which has a notoriously short time horizon, private zoos offer stability. Donors can be confident that the large sums they contribute for long-term projects will be used properly.

In contrast to non-zoo-loving taxpayers, who have little interest in how bureaucrats run "their" zoo, those individuals and corporations who donate time and money to a zoo have a strong interest in seeing that it is well run and in holding zoo managers accountable for their decisions. Like major shareholders of corporations, these zoo stakeholders are often board members and play an important role in monitoring the zoo's management and financial affairs.

David Haarmeyer is a policy analyst at the Reason Foundation. Elizabeth Larson writes for Reason *magazine.*

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The Philadelphia Zoo: A Model of Private Operation

Although privatizing zoos appears to be a trend for the '90s, private zoos have been around for decades. The oldest zoo in the United States—the Philadelphia Zoo, operated since 1859 by the Philadelphia Zoological Society—has given supporters of privately operated zoos something to crow about for many years. The society's efficient management and imaginative exhibits make it the obvious model for zoo officials considering privatization today.

Not a penny of the Philadelphia Zoo's $14-million operating and capital budgets for 1991 came from government coffers. Instead, the zoo depended on admission fees (76 percent of revenues), memberships, corporate support, and special events to keep its budget balanced. Society members have come up with such creative annual fundraisers as the Zoobilee! party, the Teddy Bear Rally, the Ben Franklin Look-Alike contest, and the Run Wild at the Zoo 10-kilometer race.

And to continue attracting patrons, members of the Philadelphia Zoological Society have made their zoo more than just a park with caged beasts. For children of any age, the 42-acre Philadelphia Zoo is an adventure. One of the more spectacular exhibits is the Treehouse. Visitors walk past gigantic fiberglass frog eggs and a mammoth tree or through monstrous replicas of bees and honeycombs. You imagine that you've shrunk to the size of the creatures whose "environment" you're exploring, and you can feel and smell exactly what it's like. Bear Country and the World of Primates offer other close-up views of life in the animal kingdom.

The Philadelphia Zoological Society has had so much success running its own zoo that the group has formed a for-profit management-consulting subsidiary, which now helps other zoos put their finances in order. Rick Biddle, chief operating officer of the Zoological Society, points to a new $8-million aquarium across the river in Camden, New Jersey, as one of the subsidiary's latest success stories. The society will be taking over operation of this underwater zoo as well.

America's oldest zoo is not the only model for officials considering privatization. Southern California is home to what is probably the best-known private zoo in the United States. Since opening in 1922, the San Diego Zoo and Wild Animal Park have been in the hands of the San Diego Zoological Society. Thanks to the society's nearly 200,000 members—the world's largest zoo membership—only two percent of the zoo and park's $480-million operating budget comes from the local government.

More than 18,000 visitors came out for the grand re-opening of the recently privatized Fort Worth Zoo last spring. An editorial in the *Fort Worth Evening Star-Telegram* hailed the "new primate house, the Asian Falls with its 40-foot waterfall and the natural environment that has been created for some of the world's most wonderful creatures," as well as one local family whose generous donations to the zoo made many of the renovations and new exhibits possible. The paper's editorial staff also pointed out that while many might have originally thought *privatizing* meant restricting access to the public, privatization of the Fort Worth Zoo encouraged "the generosity of a few private citizens" and, thanks to their donations, the zoo has actually "been opened to more people than ever before."

Not all zoos have cut themselves off from public funds cold turkey, however. In 1978, officials in Knoxville, Tennessee, turned over the city zoo to the private, nonprofit Knoxville Zoological Society. It was understood at the time, says the zoo's director, Ted Beattie, that the zoo would eventually become completely self-supporting. The society now receives just $400,000 (about 12 percent) of its $2.9-million annual operating budget from the Knoxville city government.

Another privatized zoo that has all but weaned itself from public funds is the Audubon Zoo and Aquarium in New Orleans. The Audubon Institute Inc. runs the zoo and aquarium on a $20-million annual operating budget with 600 employees. The city has given the Audubon Institute about $1 million

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over the last three years, none of which was used to balance the books; it has all gone to capital improvements. Audubon Institute officials hope to turn their zoo into "a regional Smithsonian" and are planning a breeding center for endangered species.

While a few such private zoos still accept government subsidies, most believe that getting government out of the zoo business is in their long-term interest. In Boston, the state-operated Franklin Park Zoo will soon be turned over to the Commonwealth Corporation, which will work alongside the Commonwealth Zoological Association. State employees of the zoo, which currently has a $2.85-million budget, are expected to be employed eventually by the private corporation.

The Problems of Mixing Public and Private Management

Predictably, government zoo officials aren't always eager to hand over the reins. As a result, some zoos have developed co-management/ownership arrangements between government officials and private, nonprofit zoological societies. If the experience of the Los Angeles Zoo is any indication, however, mixing public and private managers can be just as messy as letting government do the job alone.

The much-publicized power struggles between the Greater Los Angeles Zoo Association and the L.A. Recreation and Parks Commission resulted in the resignation in November 1991 of the Association's president, Bruce Nasby, who had raised paid association memberships from 80,000 to some 135,000 during his 3½-year tenure. The lion's share of the responsibility for running the L.A. Zoo has returned to the city government, but the Zoo Association continues to lend a hand: the Association contributes some $9 million to the zoo's $25-million annual budget and is still in charge of the concession stands. With both private and public keepers still involved in managing the L.A. Zoo, accountability is diffused and the source of contention remains.

At the Metrozoo in Miami, Florida, tension between the zoo's public keepers and private fundraisers has been growing for nearly a decade. The Zoological Society of Southern Florida thinks city officials put too much emphasis on salaries and employee benefits and too little on zoo maintenance and promotion. Of the zoo's $7.6-million operating budget for 1990, 68 percent went for salaries and benefits. And $2.9 million of the budget came in the form of subsidies from the county coffers.

The Zoological Society, on the other hand, has had no trouble raising funds to improve life for the animals and attracting more visitors. In 1985, with 43,000 members, the society built the zoo's $1-million animal hospital. By 1990, society membership had nearly doubled to 71,000, and the organization was able to contribute $1.1 million toward the new $1.32-million Asian River Life exhibit.

Society president Sherrill Hudson hopes to make the Metrozoo as good as or better than the private San Diego Zoo. "We need to do a lot of fundraising," she told the *Miami Herald*. "There's no question that everywhere people are skeptical about giving money over to the government. The private sector could do it, though. We could build the zoo out in five to seven years."

Bill Bird, director of the local County Park and Recreation Department, dismisses the notion that any private group could finish the Metrozoo in that amount of time. At most, public officials see the possibility that someday both the county and the society might operate the zoo together "as a hybrid creature."

Private zookeepers are successfully rejuvenating troubled zoos because, unlike their public counterparts, they have clear incentives to manage their zoos as they would a business. As with any business, the customer is king, and with today's heightened awareness of environmental issues, zoo patrons want to visit animals that are healthy and well cared for. Because funding is directly tied to the satisfaction of a zoo's visitors, private zoos are proving themselves not just better at balancing their budgets but at acting as caretakers of animals and teachers of men. □

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THE FREEMAN
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STATE HEALTH INSURANCE REGULATIONS

by Eric-Charles Banfield

Many government policies, notably those separating consumers from suppliers, distort the economics of health insurance, and prevent market forces from addressing the problems. Yet regulators considering "reforms" promise to give us only more of the same. Better remedies exist, and Congress is taking note.

Health insurance is increasingly expensive, mostly due to the rising cost of health care. Those costs are rising for many reasons, most of which are tied to Medicare, Medicaid, Veterans Administration hospitals, licensing restrictions, malpractice law, and other government policies. But government meddling in the health insurance business itself accounts for a large part of the problem, explaining over half of the uninsured population.

Employer-Provided Health Insurance

U.S. tax policy provides incentives for businesses to provide health insurance, despite the fact that the average person stays with an employer on average only four years.

That tax policy also triggers excess spending, especially on small claims. Using a tax break not allowed to individuals, companies give employees an expensive, low-deductible, high-premium health insurance policy instead of giving them higher wages.

Low deductibles tell people to use insurance for routine health care, even though insurance is really for catastrophic, unpredictable expenses. Tax policy also says that employees, once past their deductible, cannot keep any money they save by not using their insurance.

The incentive to use-it-or-lose-it, combined with low deductibles, tells employees to use insurance for everything possible, making them less careful about where and how they spend that money. Most of the rising cost of health care is because of the increase in demand for health services we might not otherwise pay for, and all of the administrative costs that go with them. It can cost $50 to process a $50 claim. Tax policy makes people bid up costs aggressively, and that accounts for much of the high rates of growth in health-care costs, which in turn drives up health-insurance costs. Those policies price up to 10 million people out of the market, over a quarter of the uninsured population.[1]

So, in a strange way, the problem is that we are over-insured, but that excess coverage occurs at the low end of the health-care scale, where most expenses fall ($100 to $1000).

With insurance tied to employment, an

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employee who loses his job would be uninsured. Legislatures in most states passed laws forcing firms to continue ex-employees on their group-insurance plans if the former employee picks up the premium payments. But those premiums are very high due to the low deductibles, far too expensive for someone whose income has just been cut off.

It is difficult to select a higher deductible in order to lower the premium payments, because the plan is a group plan instead of an individual plan, and it is not permitted to change the deductible. It takes time to find and shift to a new individual or short-term policy, and the high premiums make it difficult to afford coverage during that search period.

Mandated Coverage, Special Privileges

State laws also mandate that insurers pay for services determined by the political process, not by market forces. Often they have little to do with health care per se. About 800 insurance mandates force insurers to pay for such things as marital counseling, pastoral counseling, toupees, and even sperm-bank deposits. Studies report those mandates bid up insurance prices by 30 percent or $50 billion,[2] pricing eight to ten million people out of the insurance market,[3] about a quarter of the uninsured population. State legislatures are the cause of millions being uninsured and underinsured.

The government has given Blue Cross/Blue Shield (BCBS), formerly a hospital pre-payment plan, various special privileges granting them a competitive edge over other insurers. BCBS is exempt from taxes, antitrust regulations, actuarial requirements, and reserve requirements. With those privileges, BCBS can afford to use "community rating," giving all people in a geographical area the same premium rate regardless of risk. Risky people pay too little; low-risk people pay too much. BCBS loses customers as other insurers pick the healthiest customers and offer them lower rates. Facing shrinking premium income and having no reserves, some state BCBS plans are going broke.

With their obvious political power, those state "Blues" propose laws (as in New York and Vermont) to force community rating on all insurers. But those insurers face real costs because they don't have the same privileges as BCBS. Younger and healthier people in those states, forced by law into a community-rating pool, face much higher premiums, up to triple in some cases. With nowhere else to go (all insurers in the state face the same law), they drop their expensive coverage and go uninsured. When they develop problems in later years, they will find insurance prohibitively expensive or unavailable in those states.[4]

Gag Rules and Other Distortions

States have even enacted laws prohibiting insurance agents from saying anything bad about an insurance company.[5] That deprives consumers of valuable information from those who would know best. It cuts off the primary source of information about which insurers are slow to pay, in financial trouble, or otherwise poorly managed.

Other government factors distort the insurance market. Some states fix the prices or range of prices that preferred-provider organizations (PPOs) can offer.[6] Eight or nine state insurance commissioners do not have the right to regulate insurance premiums, but, according to industry classifications, "act as if they do" through their cumbersome filing and approval process for insurance policies.[7] The government and the legal system have made insurance policies into one-way, standardized, take-it-or-leave-it contracts, with little consumer input into what the contract says. As with federal deposit insurance, government regulation and implicit guarantees lessen consumer concern about safety and reliability.

New Regulatory Threats

Minnesota has passed Universal Health Insurance, and other nearby states have similar bills. Other states are considering improving community rating requirements.

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A group of multi-state regulators (actuaries working for state commissioners) is drafting legislation that would regulate the price, quantity, and profit margin of the small-group and individual insurance markets. The Life and Health Actuarial Task Force is considering putting ceilings on premium rate increases, forcing guaranteed renewability, and raising "lifetime loss limit ratios."[8]

Economic market forces dictate that price and quantity naturally respond to each other. Artificial rate ceilings would have to be made up by reducing coverage. But forcing renewal increases coverage, and should require higher rates. But rates are fixed by ceiling. In case that's not enough to push insurers out of the market, the higher loss limit ratios mean more benefits paid and fewer premium dollars taken in, or a lower operating profit margin. Insurers will stop doing business in certain states, and some may be driven out of business altogether.

Individual Medical Accounts

One solution that would go part way toward solving the health insurance problem is Individual Medical Accounts (IMAs). Also known as Medical Savings Accounts or Medical IRAs, these accounts would reduce bidding for needless services, provide for financial resources to cover medical expenses, and provide a portable account in case of job loss.

Tax policy is a major reason employers offer health insurance. That tax break means the firm takes what would otherwise have been an employee's wages and buys instead an expensive, low-deductible insurance policy that the individual might not choose if he had to pay the premium directly.

IMAs would allow employees to select a higher deductible, say $1000 instead of $200, and put the premium savings of about $800 into a tax-free, interest-bearing account that would be immediately available to cover payments up to the deductible. Insurance would kick in as usual for amounts over the deductible.

IMAs would have a "use-it-or-keep-it" feature, allowing individuals to accumulate any savings (from not using the account in a given year) over time. The insured would then have new incentive to be frugal with health care, shop more carefully, compare prices, and not use it to cover needless trips to the doctor for minor ailments or frivolous services. That would in turn reduce the bidding of prices at the routine care level and reduce the administrative costs associated with small claims. Best of all, if the employee loses his job, he can carry the account with him and use it to pay for medical expenses or buy interim or individual insurance coverage.[9] The cost would be the same to employers, and employees would have more freedom.

Reform, or Else

Health-insurance regulation drives a wedge between the consumers and those who provide it, weakening further their ability to choose for themselves what they want. Government involvement in insurance is primarily responsible for the reduced accessibility and increased cost of health insurance.

Government must deregulate the insurance business. The only thing worse than the continued destruction of the insurance market would be the subsequent national health insurance system that the U.S. government would run. □

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THE GOVERNMENT BABY-BROKERING BUSINESS

by K. L. Billingsley

Slavery officially ended over 100 years ago, but traffic in human beings still exists. Thanks to federal funds, the business is thriving. The trade is part of what one author calls the "child-abuse industry."

No one denies that child abuse is a serious problem. But there is much room for doubt as to its extent. Richard Wexler, author of *Wounded Innocents*, estimates that up to sixty percent of child-abuse reports are bogus. An extensive grand jury investigation in San Diego found similar problems and revealed a system that is driven by money and power.

Those accused of child abuse are held to be guilty until proven innocent. Informers need never face those they accuse. Worse, if those accused of child abuse deny doing anything wrong, social workers take that as further evidence of guilt. Whatever the facts, the parents are held to be "in denial" and children then may be seized. This creates, in effect, a hostage situation. The desperate parents will do almost anything to get their children back.

Author and screenwriter K. L. Billingsley writes about California for the Spectator.

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Our government exists to preserve liberty and individual rights, not to subsidize official corruption, broken families, and a loss of freedom.

In these cases there are two certainties: (1) It will cost the family a great deal of money, whether or not they get their children back. (2) Other people stand to make a great deal of money from the family's ordeal.

Juvenile Courts farm out the kids to private therapists, who have good reason to be selective. They prefer military children with the fathomless vaults of CHAMPUS (Civilian Health and Medical Program of the Uniformed Services) funds behind them. San Diego's Department of Social Services pays therapists $40 an hour. Under CHAMPUS, however, a psychiatrist gets $78.60 for 45 minutes and a psychologist brings in $70.

A similar situation exists for the parents. If they want their children back, they must attend numerous counseling sessions. Those who conduct these sessions prefer subjects with government-backed insurance programs. Those whose insurers have deep pockets find themselves put on expensive "maintenance" programs.

Meanwhile, social workers place children in foster homes. The San Diego grand jury acknowledged a widespread perception that social services were in the "baby-brokering business." Foster care had become a "cottage industry with a strong political voice." Again, money drives the system.

Federal funds for foster care are practically unlimited. A foster parent receives $354 per month for each child up to age four and $484 for those aged five to eighteen. These amounts are nearly double the rate a welfare mother gets. There is also a clothing allowance for foster parents, and special care rates up to $1,000 a month. All foster-care payments are tax-free. According to the grand jury, "this open-ended funding stream may have been partially responsible for excessive placement of children in foster care."

Foster care, said the jury, had become a "business" and "many foster parents are motivated by money." In some cases, the jury found, foster care funds were the families' sole income. It thus seems clear why some foster parents readily sabotage reunification plans. It is in their financial interest to retain someone else's children.

After several years of careful investigation, the San Diego grand jury blasted "bias and zealotry" in a system "characterized by "confidential files, closed courts, gag orders, and statutory immunity." The jury found evidence that social workers "disobey court orders" and "lie routinely, even when under oath." This situation was "intolerable," but the department was "incapable of policing its own."

The local Juvenile Justice Commission even raised the possibility of "criminal conspiracy" on the part of child protectors. But in spite of numerous recommendations for change, few reforms are in evidence.

One infamous case involved the Wades, a Navy family. A therapist relentlessly badgered eight-year-old Alicia Wade for thirteen months until she accused her father of raping her. Physical evidence finally exonerated James Wade, but the girl narrowly escaped being adopted away forever. The family is currently in furancial ruin, having spent some $150,000 defending themselves. The foster system returned the girl to the Wades without her glasses. She was also taking a medication to which she was allergic.

Such horror stories are far from unusual, both in California and nationwide. These stories prove a truth that government officials are slow to grasp: you get what you subsidize. Our government exists to preserve liberty and individual rights, not to subsidize official corruption, broken families, and a loss of freedom. □

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THE FREEMAN
IDEAS ON LIBERTY

GROWING TOYOTAS, MANUFACTURING SOYBEANS

by Gary North

(DES MOINES, IOWA)—Jeremiah V. Jones, a farmer living in nearby Elkhart, thinks it will be a very good year. "The weather has been excellent. We ought to get a good crop." This fall he planted Toyotas. "We rotate the crops, of course. In fall, we plant Toyotas. In spring, it's Nissans. In summer, we usually plant Isuzus, mostly for ground cover. It works out well most years, although a drought three summers ago wiped out half our Isuzus."

When asked about models and colors, he says he's betting on red winter Toyotas. "Pretty hardy crop. Withstands cold weather better than the metallic blue variety. Good crop for Iowa. 'Course, if anything comes of this global warming business, we may have to switch. No signs of it yet, though."

(NAGOYA, JAPAN)—Toshiro Uda, director of the Tanaka Soybean Works, is guardedly optimistic about prospects for soybean sales this year. "Demand remains high. But why not? This is Japan, after all. Our main concern is with supply. The whole industry has been adding plant capacity. The new robots have really streamlined production."

Mr. Uda pointed with obvious pride to the main floor of his spotlessly clean factory. Only three men were visible, sitting in front of computer screens, monitoring every aspect of the soybean production process, from the "just in time" deliveries at the front end of the factory to the robot-controlled packaging as the newly canned beans headed to the docking area. "Nothing else like it in the industry," he said.

Who Buys What?

These two news reports sound like something out of a bizarre science fiction short story about some future era where nanotechnology—manufacturing at the molecular level—has become a reality. Economically, however, both reports are the essence of a modern economy. Sometimes it takes a little surrealism to make economics clear to people.

The farmer in Iowa who plants soybeans or any other crop aimed at the market has no intention of personally eating his crop—certainly not soybeans. In the United States, soybeans are eaten mostly by household pets and certain health food devotees. Most of the soybean crop is exported, and a significant portion winds up in Japan.

The goal of farmer Jones is not to con-

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sume soybeans. He plans to buy something else. He wants money. He will sell the crop to the highest bidder, but agricultural crops being what they are, a uniform price will confront all soybean farmers, adjusted for transportation costs and other minor differences. In the bidding war, the Japanese importers of soybeans usually win. They buy the lion's share of the crop. Soybean oil is used for many products. Fido and kitty get most of whatever remains. Although I find it difficult to imagine, I suppose the rest goes into soybean burgers.

Similarly, the goal of Mr. Uda is not to drive a fleet of Toyotas. He plans to buy something else. He wants money. He will sell the Toyotas to the highest bidder, but car sales being what they are, a lot of non-price competition exists: models, colors, and features. In the bidding war, the Americans will buy, if not the lion's share, then at least a good-sized black bear's share.

Taken as an individual, farmer Jones may or may not buy a Toyota or feed his household pets soybeans. Mr. Uda may or may not eat more soybeans or buy a new Toyota this year. But taken as nations, a lot of Joneses will buy Toyotas, and a lot of Udas will buy soybeans.

The economic question is: What is the least expensive way for the Joneses to buy their Toyotas, and for the Udas to buy their soybeans?

Getting the Money to Buy

To buy a Toyota produced in Japan, Mr. Jones will need some Japanese yen. To buy some soybeans, Mr. Uda will need some dollars. But neither Mr. Jones nor Mr. Uda normally handles the currency of the other nation. So, intermediaries in both countries (or maybe in a third country) intervene to make it possible for both Jones and Uda to buy what they want. They sell dollars to the Japanese importer who wants to import soybeans. They sell dollars for yen. They sell yen to the American importer who wants a shipment of Toyotas. They sell yen for dollars. Back and forth, back and forth: the currency traders are always in search of a lower price for the currency they plan to buy next. The importers then sell their newly imported products to buyers in their respective nations.

How do the soybean farmers get the dollars to pay the importers of Toyotas? They grow soybeans. How do the Toyota manufacturers get the yen to buy the soybeans? They manufacture Toyotas. So far, so good.

The Iowa farmer is uniquely equipped to grow soybeans. He has a tremendous advantage here. The Japanese manufacturer is not uniquely equipped to manufacture Toyotas. Land costs in Japan are high: too high for growing soybeans—low value per square foot—but not too high for manufacturing Toyotas. It would be a lot more expensive for the Iowa farmer to shift production to Japan than it would be for the Toyota manufacturer to build a Toyota factory in Iowa.

The economic reality is this: the soybeans will move from Iowa to Japan for as long as the high bidders for soybeans are in Japan. Meanwhile, Toyotas will move from Nagoya to America for as long as the higher bidders are in America and the overall costs of production plus export remain lower in Nagoya.

Giving a Good Account

I would rather drive a Toyota than eat soybeans. There are Japanese who would rather dine on soybeans—presumably a great deal of soybeans—than drive a Toyota. As always, there is no accounting for taste. There is, however, accounting for cost of production.

Accountants on both sides of the Pacific Ocean are fluent in a strange and arcane language: double-entry bookkeeping. The discovery and development of double-entry accounting was one of the greatest discoveries of all time. It allows specialists in accounting to inform a producer regarding the success or failure of his efforts. The market provides the numbers: income vs. expenditures. The accountants inform the producers: "keep up the good work" vs.

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"shut the whole thing down until you figure out a cheaper way." When the producers listen to their accountants, an amazing thing happens: soybeans get grown in Iowa, and Toyotas get built in Nagoya.

Well, maybe this is not so amazing. But explaining to people how this happens is more difficult than you might imagine. People really do not understand the whole process. This is why politicians can frequently persuade voters to erect barriers to imports. Politicians rarely campaign on a platform of "Let's pay more for the things we enjoy!" but they often campaign on a platform of "unfair competition." They get elected, too.

The Economists' Disadvantage

Economists have discovered a way for drivers and diners to fulfill their respective desires with the least expenditure of money. It is called free trade. Each producer specializes in what he does best, that is, does with the least expenditure of scarce economic resources. Each consumer is therefore able to take advantage of the cost-effective production methods of the least wasteful producers. The trouble is, economists have not always been as successful in explaining this as the politicians have been in persuading voters to go along with tariff increases and import quotas. It is not easy to persuade voters in either country that Iowa farmers are really growing Toyotas, while Nagoya workers are really producing soybeans. It is not easy for most voters to grasp the fact that the laws of physics and biology are different from the laws of economics: specifically, the law of comparative advantage.

The politician looks at the short run. "Look at all the jobs that these imports are destroying." The economist looks at the long run: "Look at all the choices each individual can make." Voters see unemployed workers, or read about them. They have a lot more trouble relating their increased number of affordable choices to the decrease of restraints on trade. People frequently vote in terms of short-run issues, especially visible ones. So, the politician has long enjoyed an advantage over the economist in persuading people to support restraints on trade. It takes a very good economist to make the case for long-term personal advantage for many consumers vs. short-term advantages of reduced competition for specific unemployed workers. Adam Smith was a very good economist; he made a persuasive case. But not many people read Adam Smith these days.

Not being Adam Smith, I have taken a shorter path to economic understanding: a bit of surrealism to make my point. So, I recommend that the next time you test drive a Toyota, think about that Iowa farmer and how hard he works to make your test drive economically possible. But remember: you are skipping the joys of eating several soybean burgers in order to make your test drive possible. □

IDEAS ON LIBERTY

Frank Chodorov

Wherever two boys swap tops for marbles, that is the market place. The simple barter is in terms of human happiness no different from a trade transaction involving banking operations, insurance, ships, railroads, wholesale and retail establishments; for in any case the effect and purpose of trade is to make up a lack of satisfactions. . . . In like manner, the Detroit worker who has helped to pile up a heap of automobiles in the warehouse is none the better off for his efforts until the product has been shipped to Brazil in exchange for his morning cup of coffee. Trade is nothing but the release of what one has in abundance in order to obtain some other thing he wants.

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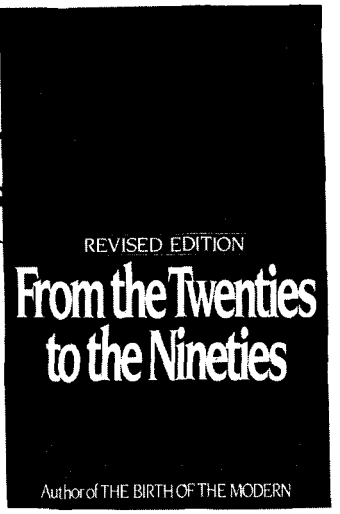

Paul Johnson rescues the 1980s from the liberals

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A REVIEWER'S
NOTEBOOK

GOVERNMENT RACKET

by John Chamberlain

In the course of assembling material for his book, *Government Racket: Washington Waste from A to Z* (Bantam Books, 270 pp., $7.95 paperback), Martin Gross has had to have recourse to the twenty-six letters of the alphabet. It's all a manner of speaking, of course. Gross needs a double and triple alphabet. He has had to use the letter C at least a score of times (C for Consultants, C for Congressional Committees, C for Chief Executive, etc., etc.).

His book abounds in singularities. He has discovered, for instance, that the Department of Education doesn't teach a single one of our children—and only contributes six percent of the massive cost of education. States and districts account for the rest. The Department of Transportation covers less than half the cost of our roads. The Department of Energy doesn't pay our electricity, oil or gas bills. The Department of Health and Human Services doesn't furnish a majority with any medical care. The Department of Agriculture provides services to farmers whose number decreases every year, even as the number of its bureaucrats increases.

So where does the money go? The old answer was that it went to buy my baby clothes just to keep her in style. But this was a gag. The money goes to buy aircraft and limousines to keep government employees—mainly bureaucrats—rolling through the skies and on the ground. Their wives must roll, too. New buildings go up in Washington and New York "like in the Roman Empire." The census counters do more than count individuals every tenth year of their supposed mission. In between times they may inspect what you keep in your freezer.

Anyone could lead the House of Representatives in opening prayers—but the House Chaplain gets a salary of $155,300—and this, says Gross, is "no typo."

Washington's biggest growth industry is the Congressional Committee—today there are approximately 300 committees in the House and Senate. Joint committees have proliferating sub-committees, each with its own chairman, staff, office, and perks.

We're talking, says Gross, about a small army: "7,800 people in the House and 4,000 in the Senate—a total of almost 12,000 federal employees." Each Senator has 40 aides, not counting those on his Committees.

The growth of staff has pushed Congress into looking for still more space. In addition to the three House Office Buildings (Cannon, Rayburn, and Longworth) and three Senate Buildings (Hart, Dirksen, and Russell), Congress has taken over two more buildings near the Capitol and renamed them in honor of former Speaker Tip O'Neill and former President Gerald Ford.

Besides the Washington office, each Congressman has also up to three offices in his home district. Says Gross, one district office is enough for any Congressman. The others should be closed.

Then there is "the shadow empire." This

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consists of outside consultants who get up to a thousand dollars a day with the taxpayers footing the bill. Reagan considered this scandalous. But instead of getting angry, all Jimmy Carter and Reagan had to do was to sign an executive order outlawing all consulting contracts. "Just a stroke of the pen," says Gross, who adds, "We're still waiting."

The General Services Administration has allowed one Congressional leader to pay more than $3,000 for a single desk. So how much is spent on furniture and decorating each office? "No one in the government really knows," says Gross.

There have been 11,000 members of Congress, with some 800 still alive. About 600 belong to the U.S. Association of Former Members of Congress, which makes them "super lobbyists." They are privileged to walk on to the House floor at all times. Armed with status and access to former buddies "even in the House or Senate cloakroom, dining room, gym, or swimming pool," the super-lobbyist can accomplish miracles.

Gross says we are in terrible shape with a federal debt that has passed the four trillion dollar mark. In 1993, it will cost us $315 billion just in interest. We do crazy things, such as spending nearly one billion dollars for unwanted honey just to keep beekeepers happy. In one year we gave away the total honey crop while the American people bought the same amount of honey from overseas. We have stored a billion dollars worth of helium underground, enough to last to the twenty-second century. And the junkets go on, with no real demand for travel to distant places. One hundred people went to the Paris Air Show for $200,000.

The $4 trillion debt looms like Mount Everest until we come upon Gross's item about land purchases. The government, he tells us, owns thirty percent of all land in the United States. At this point, one is inclined to say, "Wow!" If we were to sell the land to tax-paying people we'd be out of debt, wouldn't we? Yes, but it isn't going to happen. Congress has just paid $1.9 billion, or $50,000 an acre, for raw forest land.

Pork takes up considerable space in Gross's book. Do we really need to spend $107,000 to study the sex life of the Japanese quail? Or $60,000 for Belgian endive research? Or $84,000 to find out why people fall in love? Gross quotes Senator Proxmire as saying, "I have spent my career trying to get Congressmen to spend money as if it were their own, but I have failed."

Gross's own cure for the whole business of waste is to suggest the creation of two executives to run the government in the president's name. One would be Chief Operating Officer; the other would be Chief Financial Officer. Their big function would be to by-pass the cabinet. With "ZBB," or Zero Based Budgeting that pays no attention to last year's appropriations, and with the president having a line-item veto, we might have real reform. On the other hand, only a limitation of the terms of office for Senators and Representatives (twelve years for Senators, eight for Representatives) could spread the fear of God through Capitol Hill. □

The Radicalism of the American Revolution

by Gordon S. Wood

Knopf • 1991 • 447 pages • $27.50

Reviewed by Doug Bandow

The American Revolution is traditionally thought of as a rather conservative affair, a bourgeois revolt against imperious royal rule that kept public affairs out of the hands of the masses. And "if we measure the radicalism of revolutions by the degree of social misery or economic deprivation suffered, or by the number of people killed or manor houses burned, then this conventional emphasis" is warranted, writes Gordon Wood in *The Radicalism of the American Revolution*. But Wood, a professor of history at Brown University, contends that however tame the actual rebellion against Great Britain, the ultimate social results were far more dramatic than could have ever

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been imagined. In just a few years the events of the 1770s had dramatically transformed American society, turning it into one "unlike any that had ever existed anywhere in the world," writes Wood.

Wood begins by sketching colonial life, focusing on the political, economic, and social hierarchy that stemmed from the monarchical system. His summary of a society that seems almost as archaic as Medieval Europe makes for a delightful read.

The fount of authority in America before the Revolution was the British king. Because of the tendency to emphasize the differences between life in Britain and the colonies, observes Wood, "we have often overlooked how dominantly British and traditional the colonists' culture still was; indeed, in some respects colonial society was more traditional than that of the mother country." Around the monarchy was arrayed the aristocracy, the patrician class thought destined to rule the plebeians.

It is true that Americans were considered uncouth, unruly, and often defiant. But this neither distinguished them from their British counterparts nor meant the monarchy was irrelevant. True, the crown worn by George III was different from that worn by James I. "Yet, however superficial and hollow, it was still a monarchical society the colonists lived in, and it was still a king to whom they paid allegiance," explains Wood.

Some of the affectations of monarchy seem particularly ironic today. The consumer is now "king," but before the Revolution the king's servants scorned commerce. True gentlemen might dabble in economic affairs, but they "were not defined or identified by what they did, but by who they were," observes Wood. To work—as a doctor, lawyer, merchant, printer, or whatever—in order to live indicated a low social station. Once one's reputation as a gentleman had been established, however, one could engage in a commercial activity so long as it was seen as an avocation rather than a vocation.

Colonial America was also noteworthy for the role of patriarchy, which, argues Wood, "may even have been stronger in America than in England precisely because of the weakness in the colonies of other institutions, such as guilds." Although primogeniture was not uniformly followed in colonial inheritance law, the first-born male was usually the favored heir. Hierarchy was also strengthened in early America by the institutions of slavery and indentured servitude.

A society like this operated naturally through the practice of patronage. Personal relationships dominated both economic and political relations. "The world still seemed small and intimate enough that the mutual relationships that began with the family could be extended outward into the society to describe nearly all other relationships as well," writes Wood.

Yet as pervasive as were both monarchy and hierarchy in colonial America, challenges began to emerge before the formal rebellion against London. Republican principles were gaining adherents, eroding not only support for the king but also the many institutions, such as an established church, that buttressed his rule in a monarchical society. The colonies were "therefore a society in tension, torn between contradictory monarchical and republican tendencies," observes Wood. As a result, "the connectedness of colonial society—its capacity to bind one person to another—was exceedingly fragile and vulnerable to change."

And change it did when the Revolution shattered the traditional bonds between people. There was none of the conditions typically thought to give rise to revolution—the oppression, poverty, and war that characterized Czarist Russia, for instance. To the contrary, the colonists were, in the main, relatively prosperous and free. But they seemed to see their success as terribly precarious, especially as what had been a well-ordered, hierarchical society began to break down. "Men who had quickly risen to the top were confident and aggressive but also vulnerable to challenge, especially sensitive over their liberty and independence, and unwilling to brook any interference with

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their status or their prospects," writes Wood.

Because monarchical ties were as important economically and socially as they were politically, the Revolution's assault on those relationships had far-reaching effects on colonial society. But, Wood emphasizes, "this social assault was not the sort we are used to today in describing revolutions." Rather than proletarians versus bourgeoisie, for instance, they were "patriots versus courtiers," the latter being the primary beneficiaries of the patronage of a hierarchical society.

To replace patronage the leading revolutionaries hoped to establish new bonds, principally what Wood calls the notion of "benevolence," the natural ties that all men should have to one another. But what was envisioned as a form of republican virtue was itself doomed, if not by human nature, then by the other social forces, such as demands for equality, loosed by the Revolution. In fact, argues Wood, "the Revolution resembled the breaking of a dam, releasing thousands upon thousands of pent-up pressures," which the classical political theories of the revolutionary leaders were unable to contain. To the horror of those who wanted the government to be "based on virtue and disinterested public leadership," in Wood's words, the system instead quickly focused on factions and interests, primarily commercial. Artisans organized slates for city council elections; representatives of other professions as well as ethnic and religious groups quickly followed suit. Farmers and creditors were no different.

The perceived lack of public-spiritedness had important political implications. "By the 1780s many of the younger revolutionary leaders like James Madison were willing to confront the reality of interests in America with a very cold eye," writes Wood. The federal Constitution was crafted to both limit the power of factions and enhance the role of the disinterested in serving in government. Yet it didn't take long for interest-group politics to dominate national as well as local politics. As the theory of a disinterested elite governing the nation became increasingly illusory, pressure rose to expand the suffrage and destroy, at least in the North, what remained of American aristocracy.

One positive development of the breakdown of traditional patronage was the rise of voluntary associations, something noted by Alexis de Tocqueville, among others. Observes Wood: "In the three or four decades following the Revolution newly independent American men and women came together to form hundreds and thousands of new voluntary associations expressive of a wide array of benevolent goals." The result of the Revolution was not much-maligned atomistic individualism, but rather new, voluntary forms of social cooperation. Nevertheless, Wood argues that the chief ties between Americans became commercial—that even the "Great Awakening" revivals early in the nineteenth century did not bring people together so much as did financial interest. Wood is surely right that business played a much more important role in the U.S. than in most European nations at the time. Still, in an age when families were thriving, associations were forming, and churches were reviving, he seems to overemphasize the importance "of interest and money as the best connecting links in society."

The fact that government was not the organizing agent in society was something of which the revolutionaries could be proud. Perhaps Wood's most important observation is that while "no one was really in charge of this gigantic, enterprising, restless nation" in the early 1800s, there was no disarray. To the contrary, "the harmony emerging out of such chaos was awesome to behold." It is, in fact, a testament to the sort of spontaneous order that Friedrich Hayek wrote about earlier this century, the natural result of a free society.

Yet Wood is probably right to conclude that the founders of the American Republic were less than pleased with their handiwork; many of those who lived on into the next century, he writes, "expressed anxiety over what they had wrought." Even Thomas Jefferson, no defender of aristocratic privi-

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lege, "hated the new democratic world he saw emerging in America—a world of speculation, banks, paper money, and evangelical Christianity."

The irony is that the disillusionment felt by America's revolutionaries over the course of America's revolution was quite different from that felt by English (and American) liberals over the course of the French Revolution. There was no murder, oppression, and tyranny in the new United States. Rather, the classical republican ideal gave way to what the original revolutionaries perceived to be crass, commercial, and interest-bound democracy. Wood admits that there was a price to be paid for the sort of political system that developed, but he still celebrates the "real earthly benefits it brought to the hitherto neglected and despised masses of common laboring people." And it surely has done so for many years.

Alas, those benefits began to shrink as the constitutional design created by the revolutionaries to contain the power of faction started breaking down by the middle of the nineteenth century. Today we are seeing the deleterious consequences of a government that, despite the best efforts of the founders, has become a captive of clamorous interest groups. □

Doug Bandow is a Senior Fellow at the Cato Institute and the author of The Politics of Plunder: Misgovernment in Washington.

Liberalism in Contemporary America

by Dwight D. Murphey

Council for Social and Economic Studies, 6861 Elm Street, Suite 4H, McLean, VA 22101, 1992 • 320 pages • $25 paperback

Reviewed by William H. Peterson

Liberalism, that cover word for the American Left, the powerful intellectual movement that has swept over this country through most of this century, takes a most optimistic regard of government interventionism from federal bank deposit insurance and Social Security in the New Deal days to the Environmental Protection Agency and national health insurance today. These liberals peddle—plainly but softly—a Planned Society.

Today their demigod Karl Marx has been put into the closet with the demise of Eurocommunism, but their more recent demigod John Maynard Keynes has been resurrected so as to repeal the cycle of boom and bust once and for all. And for all their talk of "Democracy," they elevate centralization and reduce the individual to a pawn on the chessboard of a New World Order.

Dwight Murphey, professor, lawyer, author of *Understanding the Modern Predicament*, does a splendid job dissecting liberalism. He does so mainly through reporting the stands and slants, including flip-flops, on current events of the flagship liberal journal, *The New Republic*, from its inception in 1914 to early 1985.

The Murphey strategy is sound. Events such as the Sixteenth Income Tax Amendment, World War I, Prohibition, the Great Depression, the New Deal, World War II, McCarthyism, the Eisenhower Administration, Vietnam, the new Left, Reaganism, and so on have to be liberally interpreted, even perhaps orchestrated, for the broader media. *The New Republic* and *The Nation* (also treated by Murphey) seemed to have given marching orders to such bigger circulation opinion makers as *The New York Times, Washington Post, Los Angeles Times, Time, Newsweek,* CBS, ABC, NBC, and so on. This is liberal revisionism on the march, telling America what to think.

Dwight Murphey gives us quite an intellectual journey through the years as liberalism reveals relativism and dissimulation in the thoughts of such movement liberals as Woodrow Wilson, Herbert Croly, Thorstein Veblen, John Dewey, Stuart Chase, John Kenneth Galbraith, Robert Heilbroner, and Michael Harrington. Right along through the decades these thinkers have consistently departed from the role model of limited government set forth by the Founding Fathers in the Declaration of Independence, the Constitution, and the Bill of Rights. The

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Ninth Amendment, which reserves to the people powers not specifically delegated to the federal government, is foreign to them. They glorify the State. Liberty, which shares with liberal the same etymological roots in the Latin word *liber* meaning free, is hardly in their vocabulary.

No surprise, then, that the liberals long had quite a love affair with the Soviet Union even to the point of turning a blind eye to Stalin's death-by-starvation of the Kulaks in the early 1930s. The Soviet Union, after all, was the zenith (or was it?) of a Planned Society and a counterforce to the rise of Nazi Germany. But the love affair turned sour, notes the author, with the Hitler-Stalin Mutual Nonaggression Pact of August 1939 which was quickly followed by Hitler's invasion of Poland from the west, soon matched by Stalin's invasion of Poland from the east. Once again, the editors of *The New Republic* had to cover their tracks.

Similarly *The New Republic* was initially very friendly to the takeover of Cuba by Fidel Castro. With the influence of writer-reporter Herbert Matthews of *The New York Times* who had interviewed Castro in his Sierra Maestra stronghold, *The New Republic* editors described Fidel in 1957 as "nationalistic, socialistic, anti-American, and noncommunist." But by 1960 the magazine was forced to declare that "Communism has crossed the Atlantic and now squats 90 miles off-shore."

So it goes, with the liberals calling many shots in American opinion, sometimes inaccurately, always *illiberally*. Historian Otto Scott decries in the foreword "the modern liberal tendency to shout down opposition, to engage in *ad hominem* methods of argument, [and] to engage in blacklisting and censorship."

Dwight Murphey's labor of love is a contribution to right thinkers, telling them to continue to be on guard against the slings and arrows from the outrageous Left.

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Short-Term America: The Causes and Cures of Our Business Myopia

by Michael T. Jacobs

Harvard Business School Press, Boston • 268 pages • $24.95

Reviewed by Hal Gordon

One of the most quoted aphorisms of Sony's Akio Morita is that in Japan, managers think ten years ahead; in America, ten minutes.

Superficially, the criticism is valid. American business executives *are* short-term profit maximizers, and this country's long-term ability to compete in world markets has suffered as a result. But why? Are American managers inherently myopic, avaricious, or just plain stupid? Not really. To a great extent, as Michael Jacobs explains in his current book, they are merely responding in a rational way to the network of incentives and controls created not by the market, but *by government*.

"America's economy," writes Mr. Jacobs, "was founded on the belief that markets work. Yet the United States now operates the most heavily regulated financial system on earth."

Consider the banking industry. One reason why Japanese managers think in terms of decades and not in quarters is that in Germany and Japan banks sit on the boards of major corporations. Banks not only provide the capital necessary for steady growth, they hold managers strictly accountable for the long-term success and profitability of the enterprise. In the United States, banks are prohibited by New Deal-era legislation from owning stock in non-financial companies.

Banks are conservative institutions that favor long-term growth. Excluding them from an ownership role in corporations means that both banks and corporations are poorer as a result. But government regulation, of course, does not end there.

The principal owners of corporate America are the pension funds and other institu-

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tional investors that hold over half the stock of the hundred largest U.S. firms. Like banks, these owners tend to be conservative by nature and one might suppose that they would be the perfect long-term shareholders. The trouble is that government discourages the owners of America's corporations from acting like owners. SEC and state regulations make it hard for shareholders to take concerted action to discipline or replace poor managers. Proxy battles are difficult and costly, and forty states now have anti-takeover laws.

Furthermore, current interpretations of the antitrust and tax laws are so broad that if an institutional investor attempts to exercise ownership—even by so much as nominating a candidate for the board of directors—that investor is liable to be accused by the FTC of subverting competition, or by the IRS of "entering the business" of the corporation and thereby subjecting itself to tax penalties. (In the latter case, a pension fund or foundation would lose its tax-exempt status, which makes these investors even more wary.)

Thus, since the nominal owners may not exercise real ownership authority, the only means by which they can express their dissatisfaction with the way the company is being run is by selling their stock. And the fear that they will do just that, and expose the company to the threat of a takeover, is what drives managers to sacrifice the company's long-term interests for the sake of making a good showing in the next quarter.

The takeover threat is heightened by the fact that government taxes corporate profits twice and treats corporate debt as a tax deduction. This makes debt financing attractive. Indeed, as Mr. Jacobs points out, one of the features that drew investors to so-called "junk" bonds was that they purported to combine the return characteristics of an equity security with the tax advantages of a debt. The politicians may have deplored the wave of corporate takeovers and leveraged buyouts that swept Wall Street during the last decade, but they were as much to blame as anyone else.

Predictably, the big government crowd says that the answer to our economic ills is even more intervention. Mr. Jacobs has a better idea. To cure business short-termism, he recommends that our capitalist system be injected with a healthy dose of—well—*capitalism*. Among other reforms, he proposes that banks be allowed to own stock in non-financial businesses, that we streamline financial services regulations, and that we give shareholders greater freedom to elect and replace directors. The sooner our capitalists are allowed to act like capitalists, he argues, the sooner our managers will be likely to think ten years ahead.

Hal Gordon is a free-lance writer in Bethesda, Maryland.

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—Leonard E. Read

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